FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,005 — Monday February 21 1983 — D 8523 B

West Germany: why the U.S. is worried by Vogel, Page 14

NEWS SUMMARY

GENERAL

Labor wins in Western Australia

Australia's Labor Party scored a resounding victory in Western Australia's state election on Saturday, boosting its hopes of winning the general election on March 5.

The swing to Labor was about 7–8 per cent, which would give it a majority of up to 11 seats. Last night, with five results to come, Labor had 30 seats, a gain of seven, the Liberal-National Country Party coalition 20 and the National Party 2. Page 16

Boy shot dead

A two-year-old boy was shot dead in his mother's arms when a paramilitary civil guard fired at their car for not stopping at a checkpoint near Madrid.

PLO man quits

Issam Sartawi said he resigned from the PLO's parliament-in-exile in Algiers because it refused him time to speak. Page 2

Shops looted

Shops were looted and windows broken when detergent went on sale for the first time in a month in Titograd, Yugoslavia. Elderly people and children fainted in the rush after queues were told there was not enough to go round.

Sharon voted in

Israel's ousted defence minister Gen Sharon was voted on to the cabinet's defence committee by a large majority. Page 2

Blizzard kills 31

Thirty one people died in a blizzard in the mountains of central Lebanon and four drowned in high seas off Beirut.

Nkomo to report

Zimbabwe opposition leader Joshua Nkomo, detained by authorities for eight hours on Saturday, was ordered to report to police again today. Page 2

Front line summit

Leaders of Africa's six "front line" states met in Harare to formulate a common position on Namibian independence for next month's non-aligned summit in Delhi.

Bomb suspects held

Terrorist suspects Walther Kexel and Ulrich Tillman, arrested in Dorset, England, will be extradited to West Germany to be questioned about bombings against U.S. servicemen.

Dutch bus deaths

Four passengers were killed and 16 injured when a bus carrying 24 people on a sports club outing somersaulted off a road near Amersfoort, Holland.

Horatian find

Archaeologists found marble stones on the bed of the Tiber believed to be from the bridge on which Horatius died defending Rome single-handed against the Etruscans in 508 BC.

Briefly . . .

Anisoara Cusmir of Romania beat her own women's indoor long jump world record with a leap of 6.94 metres.

Bomb exploded in the car of Lebanon's housing minister Bahaadin Al-Bessat but he was not hurt.

Gambia's President Dawda Jawara will start talks in Paris on Wednesday.

Soviet Premier Nikolai Tikhonov will arrive in Athens today for a three day visit.

BUSINESS

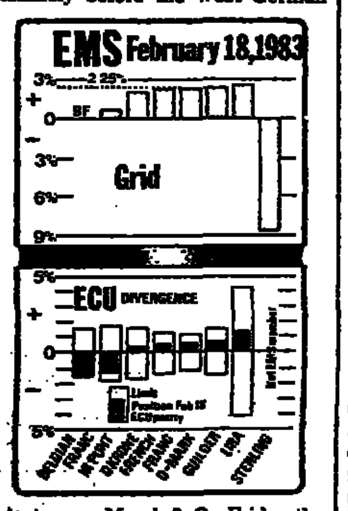
Britain to decide on radio phones

● UK GOVERNMENT is expected to announce today its decision on the type of cellular mobile radio system to be used in Britain's two planned radiotelephone networks. Its choice could influence prospects for industrial co-operation with other European manufacturers. Page 16

● RUMASA'S chairman rejected reports that his group, Spain's largest private holding company, had broken with its auditors and said the economy minister could have caused untold damage by indicating the Bank of Spain might inspect its accounts. Page 18

● FRENCH FRANC came under renewed pressure in the European Monetary System last week. This reached a peak on Friday as operators moved out of weaker currencies to safeguard against any possible realignment.

Adjustment of parities has been widely expected, although it seems unlikely before the West German



election on March 6. On Friday the franc was fixed at a record low against the D-mark while the Belgian franc was placed outside its divergence limit. Both currencies attracted central bank support but the Belgian franc remained the weakest currency.

The strongest member was again the Italian lira followed by the Dutch guilder.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● TANKER owners hope the latest wave of oil-price cuts will help revive the depressed market for oil-carrying vessels. Page 3

● WEST GERMANY'S freight transport industry faces another difficult year according to Munich-based IFO Economic Research Institute. Page 2

● UK'S Central Electricity Generating Board chairman Sir Walter Marshall denied reports of a row over plans to dismantle its design and engineering centre. Page 6

● BRITAIN'S water industry employers and unions were studying the final report of the inquiry into the national strike, now in its fifth week. Page 16

● UK FOUNDRIES issued a warning to customers and the Government that on present trends the industry could be swept away. Page 8

● SOVIET UNION is considering tenders from Western companies to build a $60m booster station for the Orenburg Siberian gas pipeline. Page 4

● BANCA della Svizzera Italiana of Lugano recommended payment of a 1.5 per cent 1982 bonus on its 12 per cent dividend.

● DUTCH central bank assured clients of Slavenburg's bank, which was raided on Friday by the fiscal police, that their investments are safe.

Hundreds of Moslem immigrants massacred in Assam elections

BY K. K. SHARMA IN NEW DELHI

MORE THAN 600 Moslem immigrants were killed over the weekend in the north-eastern Indian state of Assam. Some estimates put the death toll as high as 1,000.

The massacre took place just before the final round of voting in Assam's local elections and was in protest against the inclusion of large numbers of immigrants from Bangladesh on the electoral roll.

The Government was forced to bring in troops to try to control tribesmen wielding bows and arrows, guns and spears. The violence, which lasted eight hours, was so intense that polling could not be held in at least nine constituencies. Bomb explosions also prevented voting in parts of the parliamentary constituency of Gauhati, the state capital.

Attempts will be made to complete the balloting today so that counting can begin on Tuesday for the 126 seats in the state legislature and 12 parliamentary constituencies.

But the violence, which has continued to escalate over the past 18 days and has left a total of well over 1,100 people dead, makes the election a tragic farce, as it is almost certain that the electorate will never accept the outcome.

Mrs Indira Gandhi, the Indian Prime Minister, called the elections after the collapse of talks with militant Assamese political and student groups about deporting illegal immigrants.

Assamese Hindus complained that the state was being swamped by Moslems, mainly from neighbouring Bangladesh, who were taking over scarce jobs and land. They called for a boycott of the elections in protest against the inclusion of the large numbers of immigrants on electoral rolls.

As the bloodshed increased, poor tribesmen joined in the fight against the immigrants. Members of the Lalung tribe and local Hindus were responsible for the deaths of at least 500 Bengalese, Assamese and other tribespeople at Nellie, in the Nowgong district, which was at the centre of the weekend's massacres.

Police said 18 villages were wiped out by the attackers, who set fire to hundreds of thatched huts. One eyewitness counted 150 corpses, some of which had been beheaded, lying in open fields amid the debris of charred villages.

When the tribesmen attacked one village, a 20 foot wide stream blocked the immigrants' escape and many women and children were killed as they tried to wade across.

Survivors were yesterday burying the dead in mass graves, while 200 of the most seriously injured have been taken to a regional centre where special hospitals have been set up. Medicines are being rushed in from New Delhi.

The army, which was at first called in to try to keep order in Nellie was yesterday put on the alert all over Assam.

Mrs Gandhi faces a strong attack in parliament today when the opposition is expected to try to censure the Government for "mishandling" the Assam situation. Mr P. C. Sethi, the Home Minister, paid a flying visit to Assam yesterday.

CRUZEIRO DEVALUED BY 23%

IMF Brazil loan to proceed despite credit lines delay

BY PETER MONTAGNON IN LONDON AND ANDREW WHITLEY IN RIO DE JANEIRO

The International Monetary Fund is to proceed with its multi-billion dollar debt package for Brazil despite the failure of international banks to meet a key deadline for restoring money market lines in Brazilian banks abroad.

Brazil devalued the cruzeiro by 23 per cent over the weekend, in a bid to restore the credibility of its complex economic rescue programme.

Efforts to restore the money market lines to a level of at least $7.5bn are a crucial part of the rescue package, which also includes $4.4bn in new loans from commercial banks, a refinancing of $4bn in loans falling due this year and the maintenance of short-term trade credits.

Figures compiled by banks in New York over the weekend – after Brazil's surprise devaluation announcement – show that Brazil is still some $600m short of meeting the target figure for the money market lines, which are inter-bank credits through the money markets. Pressure is to continue this week at chairman level on banks that have not complied with this part of the debt rescue package which entails bringing money market lines to a level equal to 87 per cent of their amount outstanding on June 30 last year.

The problem facing leading creditor banks and the IMF at the moment is that Brazilian banks currently have sufficient lines to operate normally in the Euromarkets but no extra leeway to satisfy the foreign exchange needs of Brazil's central bank. Some bankers suggested yesterday that it might eventually be necessary to modify the package to provide additional medium-term finance for the central bank in order to get round this difficulty.

A spokesman for Bankers Trust, which is co-ordinating worldwide efforts to restore the money market lines, pointed out yesterday that the target level of $7.5bn excluded volatile overnight money. If overnight funds on deposit at Brazilian banks are included in any calculation of total money market lines available to them, the figure reached already would be $7.569bn.

This has been reached despite net withdrawals since January 27 of $287m by some commercial banks and withdrawals of $260m by the Brazilian central bank itself, in order to meet normal payment.

Moreover, the Bankers Trust spokesman said that more money was likely to come in early this week. Italian banks, which have so far been reluctant to restore money market lines to Brazilian banks, are now considering producing up to $200m following a lengthy meeting on Friday.

Further money, amounting to some $150m, has already come in since Wednesday's deadline passed. The Bankers Trust spokesman said that in some cases banks first tested the water with overnight money. When they found that this was repaid they came in with fixed-term money market deposits and this pattern is expected to continue.

Continued on Page 16
International capital markets, Page 17

U.S. urged to match Moscow on arms ban

By James Buchan in Bonn

HERR Hans-Jochen Vogel, the Social Democrat candidate for chancellor in next month's West German elections, has written to President Reagan demanding that the U.S. match Soviet flexibility with a "full counter-proposal" on nuclear disarmament in the European theatre.

In an interview on Saturday, Herr Vogel also went further than ever before in giving serious consideration to the Soviet contention that its intermediate-range missile arsenal in the European theatre should match the French and British independent nuclear forces.

Responding to remarks by the U.S. President last week that were widely seen as a warning against a Social Democrat victory on March 6, Herr Vogel made clear in a letter delivered to the U.S. ambassador in Bonn at the weekend that the arms-control ball lay firmly in the U.S. court.

Discussing the letter in an interview on his special campaign train, Herr Vogel said that the Soviet offer just before Christmas to reduce its European missile force to the 162 French and British systems, though not sufficient, was "a step in the right direction. We think the U.S. should now come out with a proposal that would make it easier to come to an arrangement" at the U.S.-Soviet talks on intermediate-range nuclear forces (INF) at Geneva.

Herr Vogel has taken issue with alliance orthodoxy to demand such "a radical reduction" of the Soviet force as to make the stationing of new U.S. missiles in western Europe, envisaged by

Continued on Page 16
Why the U.S. is worried by Vogel, Page 14

Brussels calls for adoption of Japanese deal

BY JOHN WYLES IN BRUSSELS

EUROPEAN COMMISSION Trade Ministers will be urged tomorrow to formally adopt the EEC agreement to curb imports of Japanese video-cassette recorders and nine other key Japanese products.

The Commission has been lobbying hard recently to "sell" the package, negotiated in Tokyo nine days ago, as ushering in a new era in the Community's troubled commercial and political relations with Japan.

The agreement, which was worked out hastily between EEC and Japanese negotiators in Tokyo, is extremely loosely worded and it is unclear exactly how it will be put into effect. But it is expected to lead to an increase in the retail prices of VCRs in Europe.

Decisions have still to be taken on the level of the "floor price" for Japanese VCRs and how it will be enforced. Nor is it certain what arrangements will be made to ensure the Japanese manufacturers observe the import limitations envisaged in the agreement.

Reactions have been muted so far and governments seem to need all the time available to define their positions. West Germany has a dislike of trade management agreements of this kind but is likely to overcome its distaste if other governments are in favour.

Bonn will be aware that a central objective is to protect the Dutch Philips group and West Germany's Grundig – the two manufacturers of European-designed VCRs – by giving them a guaranteed market share and sheltering them from price competition.

Both companies have fared poorly in their attempts to compete against Japanese manufacturers, which collectively dominate about 90 per cent of the world VCR market. Grundig is understood to be losing as much as DM 200 ($83) on every machine it sells at present.

A Japanese promise to "align" prices with those in Europe has been seen as bad for the consumers. But the Commission claims the price rise is vital in order to persuade Grundig and Philips to withdraw anti-dumping complaints they have levelled against Japan.

Tokyo's major objectives are the withdrawal of the complaints and the lifting of French import restrictions which require all videocassettes to enter through the customs post at Poitiers.

France has not yet indicated whether it will support the arrangement negotiated by Commissioners M Etienne Davignon and Herr Wilhelm Haferkamp. M Michel Jobert, the French Trade Minister, is expected to find the overall package inadequate but, like many of this colleagues, may well conclude that this package is better than no package at all.

The British Government hopes that the agreement will encourage more Japanese manufacturers to make VCRs in the EEC. Thorn EMI is already assembling VCRs in the UK from kits supplied by Victor Company of Japan (JVC), and Sanyo plans to start UK production soon.

This appears to be the message filtering out of Whitehall where there is a general satisfaction that the 800,000 videocassette kits that can be assembled in Europe under the agreement, will allow adequate growth for British-based videocassette manufacturing. The overall ceiling on exports of Japanese recorders will be 4.55m units.

But many details must still be worked out before the agreement can be implemented.

Opec price war likely after Nigeria cuts crude by $5.50

BY ROGER MATTHEWS, MIDDLE EAST EDITOR, IN LONDON

THE PROSPECT of an oil price war increased sharply yesterday with the decision by Nigeria to cut $5.50 off the price of its top-quality crude. It will now be priced at $30 a barrel, backdated to February 1.

The Government in Lagos pledged to follow "cent by cent" any further reduction in the price of North Sea oil which on Friday the British National Oil Corporation proposed to cut by $3 to $30.50 a barrel.

Nigeria is the first member of the Organisation of Petroleum Exporting Countries to have publicly broken ranks on prices. Its decision appears to have wrecked attempts by Saudi Arabia and other Gulf oil-producing countries to win Opec acceptance for a $4 reduction in the reference price to $30 a barrel.

The Gulf states were said to have been shocked by the size of the Nigerian price cut and by what one official described as "its wilfully clumsy timing."

At least seven of the 13 Opec members were believed to have accepted the Gulf states' plan for a $30 reference price for Saudi light and a $1.50 differential for Nigeria's higher quality Bonny light, which would have priced it at $31.50 a barrel. Saudi Arabia had earlier been insisting on a $3 Nigerian differential.

The Nigerians are said to have been thoroughly informed of the proposals and their apparent closeness to success.

In Washington, Mr George Shultz, the U.S. Secretary of State welcomed the news of oil price reductions as "a good thing for the world in general" if not for some individual countries.

History showed that cartels always ran into difficulties, he said. World oil prices had been too high and the market had taken over.

Saudi Arabia and its Gulf allies were holding urgent consultations yesterday on how to react to the Nigerian move. Foreign and Finance Ministers of the Gulf Co-operation Council (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar and Oman) were already meeting in Riyadh when the Nigerian announcement was made. No date has yet been fixed for a meeting of oil ministers.

With a $30 Opec reference price now apparently indefensible, the best the Gulf states may hope for is $28.50 a barrel. Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, had earlier warned of chaos in the market if producers began acting unilaterally.

Saudi Arabia's own production has slumped because of its adherence to the $34 marker price. Latest estimates suggest that it has fallen below 4m barrels a day and may even have hit 3.5m b/d. Sheikh Yamani said last week that the decline threatened power generation, water desalination plants and other Saudi industries that operate on gas produced in association with oil.

Continued on Page 16

Warning against UK reflation

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

A REFLATION of the British economy in the spirit of the Labour Party's proposals would make only a small dent on unemployment by 1986 and could cause a big new wave of inflation said the London Business School's Centre for Economic Forecasting.

In its latest economic outlook published today it suggests that on the most optimistic assumptions reflation accompanied by financial controls and an incomes policy could knock about 350,000 off the unemployment total by 1986.

The price for this would be an inflation rate of about 12 per cent compared with around 8 per cent expected under a Conservative government following broadly unchanged policies.

However, the Business School warns that if financial and labour markets reacted unfavourably to a Labour government the inflation rate could soar to 17 per cent and unemployment would go on rising.

The study conducted by Mr Giles Keating, is the first major independent analysis based on the Labour Party's proposals published last autumn. The assumptions for the centre's forecasts are a somewhat watered-down version of the Labour Party's programme and represent its best guess about the measures which would actually be taken by an incoming Labour government.

Details, Page 9; Lombard, Page 15

CONTENTS

OVERSEAS NEWS

Arafat ally leaves PNC

BY JIM MUIR IN ALGIERS

MR ISSAM SARTAWI, a close associate of PLO Chairman Yasser Arafat, yesterday announced that he had resigned in anger from the Palestine National Council (PNC), which is meeting here.

Mr Sartawi, who has played a leading role in contacts with Israeli liberals in recent years, said he had been denied a platform to put his views before the PNC, accusing it of "violating the principles and rules of democracy". He added that this did not mean that he no longer believed in the PLO as the sole legitimate representative of the Palestinians.

Mr Sartawi is one of few Palestinian figures advocating a PLO declaration recognising Israel's right to exist.

At the last PNC session in 1981 there were similar scenes when Mr Sartawi proferred his resignation, only to withdraw it and retain his membership of the council. This time, however, he said it was "final", although several PNC members later cast doubt on that.

Mr Sartawi's views and his style of promoting them appear to command little support in the PNC. PLO officials said that the question of recognising Israel was "beyond the red line" for discussion in an open council session, and that Mr Sartawi had been invited to express his opinion in the closed political committee meetings.

The affair underlined the fact that the compromise consensus which may emerge as a synthesis between the positions of the hard-line and mainstream PLO groupings is far removed from the stance adopted by Mr Sartawi. At present, most indications are that Mr Arafat will succeed in inducing the hardliners to tone down their outright rejection of the Reagan peace proposals and to back the Arab peace plan endorsed at the Fez summit last year, as well as the idea of an eventual confederation between an independent Palestinian West Bank state and Jordan.

The indications are that he will not emerge with an open mandate to fall in with the Reagan initiative at this stage, but that the door will be left ajar to future American peace efforts, provided Washington were to prove itself serious in promoting a settlement ensuring Palestinian self-determination.

Sharon retains key defence role

BY DAVID LENNON IN TEL AVIV

GENERAL ARIEL SHARON, who was ousted as Israel's Defence Minister because of his role in the Beirut massacre, will continue to be involved in shaping the country's foreign and defence policies, the cabinet decided yesterday.

On the recommendations of Mr Menahem Begin, the Prime Minister, the cabinet voted by a large majority to reappoint General Sharon to the cabinet key ministerial defence committee and the ministerial sub committee guiding the negotiations with Lebanon.

Yesterday's move ended a week of speculation that, as a lowly minister without portfolio, General Sharon would have no influence on defence and foreign policy issues.

Some ministers are believed to have hoped that General Sharon's power had been severely curtailed by the switch of portfolios. But at yesterday's meeting the only person to speak out against his reappointment to the powerful inner committee was Mr Mordecai Zippori, the Communications Minister who is General Sharon's most outspoken critic in government.

Justifying his decision, Mr Begin spoke of the need to utilise General Sharon's vast experience.

Nkomo believed to be seeking exile

By Our Harare Correspondent

MR JOSHUA NKOMO, leader of the opposition Zapu party in Zimbabwe, was prevented from leaving the country to attend a peace conference in Prague at the weekend because the Government believed he might be going into voluntary exile.

While there has been no official statement from the Mugabe administration, one official said: "We think he has certain charges to answer."

During a recent parliamentary debate, Cabinet ministers claimed that the Zapu leadership was planning to establish a secessionist state in Matabeleland in Western Zimbabwe and set up a government in exile there. Eight hours after Mr Nkomo, 65, was detained at Bulawayo airport on Saturday, he was released. His travel documents and passport have been confiscated and he has been told to report to the police today.

Mr Nkomo claimed that his detention was fresh proof that Mr Robert Mugabe the Prime Minister wanted to "crush all opposition" and create a one-party state.

He is the second Zimbabwean opposition politician to have been prevented from leaving the country in recent months.

Mr Ian Smith, former Prime Minister of Rhodesia had his passport confiscated late last year.

Mr Nkomo's arrest coincided with a bitter attack against his party by Mr Mugabe. Addressing a political rally in the Eastern Highlands, Mr Mugabe said: "There is no dispute that Zapu is responsible for the dissidents and they are fighting their battle. We will hammer the dissidents until they realise that Zimbabwe can never be ruled on tribal lines."

Mr Nkomo's brief detention came during the important trial in the High Court in which seven senior Zapu men, including Mr Dumiso Dabengwa, often tipped as Mr Nkomo's successor and Lt-Gen Lookout Masuku, former commander of Mr Nkomo's Zipra guerilla army, are accused of plotting to overthrow the Government.

Mr Nkomo said yesterday he could not understand why the Government had refused to allow him to leave the country. "Why do something that brings this country again to the top of world bad news?" he asked.

● Zimbabwe has banned the South African-based correspondent for the U.S. magazine Newsweek. Mr Holger Jensen was declared persona non grata following a recent report on conditions in Matabeleland

'Fresh round of Namibia talks'

THE SOUTH Africans and the Angolans are expected to meet in the Cape Verde Islands this week for a second round of talks designed to prepare the ground for a ceasefire in the border war in Namibia, J. D. F. Jones reports from Johannesburg.

However, reports from Washington that a de facto ceasefire was already being introduced have been firmly contradicted by an announcement from Windhoek that 96 infiltrators, all allegedly belonging to the South-West African Peoples Organisation (Swapo), have been killed in the operational area in the past few days.

Last Friday, Mr Pik Botha, South Africa's Foreign Minister, said that chances of success in the ceasefire talks were tenuous in view of "certain events" which he did not specify.

● Leaders of the front-line states gathered in Harare yesterday for a one-day conference to discuss negotiations aimed at achieving a settlement in Namibia and to Formulate an agreed common position for next month's non-aligned summit in New Delhi.

Black opposition splits widen

THE DIVISIONS within the black opposition movement in South Africa widened at the weekend when the Black Alliance decided to suspend one of its principal members—the (Coloured) Labour Party—for co-operating with the Government's new constitutional proposals, J. D. F. Jones reports from Johannesburg.

It had been expected that the Black Alliance, meeting in Durban, would expel the Labour Party, but instead, the party was suspended from all activities until the Alliance next meets in late May.

FINANCIAL TIMES, published daily except Sundays and holidays. U.S. subscription rates $420.00 per annum. Second Class postage paid at New York, N.Y., and at additional mailing centres.

Michael Holman looks at the effect of oil price cuts on Nigeria's economy

Doubt cast on Lagos budget

IT HAS been an agonising few weeks for the Nigerian Government, dependent on oil for 90-95 per cent of export earnings, but forced to merely look on as production slumped dramatically in response to the uncertain world market.

Now that Nigeria has responded to Britain's price cut of comparable North Sea oil by dropping its price from $35.50 to $30, there is one key question: can production at the new price recover to a level which will meet the expectations on which the 1983 budget was based?

That envisaged production of 1m barrels a day, comfortably under the 1.3m b/d average reached last year. But market conditions saw production slump to 800,000 b/d last month. Buyers and producers continued to hold back in expectation of price cuts and output last week was a mere 400,000 b/d, according to industry officials contacted in Lagos last night.

Nigeria has been on a production switchback—which has made nonsense of revenue forecasts in the 1981-85 N82bn (£76bn) development plan—for the past thre years.

At one point in 1980 it reached a peak of 2.2m b/d. But 1981 saw Nigeria lose its battle to sustain $40 p/b for its oil, causing a slump to around 700-800,000 b/d in July and August of that year before Nigeria gave way and cut the price to $36.

The recovery, which saw production reach 1.8m b/d at the end of 1981, was comparatively shortlived. In March, 1982, Opec members decided to maintain the price structure despite pressure and Nigeria was catapulted into the forefront of a test of strength between Opec and international oil companies.

Buyers held off and liftings in March and April fell to under 1m. It forced President Shehu Shagari into a series of austerity measures designed to force Nigeria to live within its means.

The most important step involves import curbs with the target of reducing the total foreign exchange outflow—including both visible and trade service payments — to only N600m a month, half the level of a year ago.

It is an ambitious target, made doubly difficult by the fact that the curbs have to be imposed in an election year.

The rough calculation of industry officials is that Nigeria must now reach between 1.2m to 1.3m b/d at the new price to reach the 1983 budget targets. "Everything now depends on reaction from the Gulf states," said one official last night.

Meanwhile, the fall in oil output and delays in implementing the import curbs have seen a steady rise in arrears in trade payments.

No official figures are available, but bankers put the backlog at between $3bn to $5bn. Last month, the governor of the Central Bank, Alhaji Abdulkadir Ahemd, said that measures to reduce the backlog should be ready in March.

But this may be optimistic. A vital part of the package is likely to be a club Eurocredit of perhaps $1bn, and although preliminary talks have begun, most bankers believe that a successful outcome is some weeks away.

Traders take longer view, Page 3

Libyan threat to Sudan recedes

BY CHARLES RICHARDS IN CAIRO

FIELD MASSHAL Abdel Halim Abu Ghazala, the Egyptian Defence Minister, has declared that there are no signs of a crisis or possible aggression against Sudan from Libya. But Egypt would not hesitate to invoke its mutual defence pact with Sudan to counter any aggression against its southern neighbour, he said.

His comments appear to be intended to offer reassurance that the situation in the area is stable.

Nevertheless, Egypt has alerted reserve officers of a possible call-up and has moved fighter aircraft closer to the Libyan border in the south of Egypt.

Egypt has played down the presence of four U.S. Air Force Awacs (early warning aircraft) in Egypt which they have consistently declared were operating on purely routine training exercises.

Pentagon officials have said that Egypt's President Hosni Mubarak requested the Awacs to counter aggressive Libyan moves in the area.

Both Sudan and Chad have accused Libya of massing troops on their respective borders in an attempt to "destabilise neighbouring countries." It is not clear whether concentrations of Libyan forces, including long-range bombers and armoured units, as alleged by Sudan, were aimed at Chad or Sudan.

The Pentagon now says the Awacs are being withdrawn this week.

On Tuesday, President Mubarak will be flying to Khartoum for the first meeting of the Higher Council of Integration between Egypt and Sudan.

● Mr George Shultz, the U.S. State Secretary, yesterday said that the clear threat that Libya had presented to Sudan had "receded"—as a result of quick and decisive action by President Ronald Reagan, Reginald Dale reports from Washington.

Col Muammar Gadaffi, the Libyan leader was, at least for the moment, "back in his box where he belonged." Mr Shultz said on U.S. television.

Spain's UCD party decline in final act

By David White in Madrid

ONE OF the most spectacular decline-and-fall stories of any political party in modern Europe reached its final act in Madrid at the weekend with the effective demise of the centrist coalition Union de Centro Democratico (UCD).

The party, formed in 1977, governed Spain for five years before collapsing in last October's general elections, broken asunder by internal quarrels and divisions.

Sr Adolfo Suarez, who founded the party and who, as Prime Minister, piloted Spain through the immediate post-Franco period, formed his own splinter group three months before the election. The UCD's seats were cut from 168 to 12 in the 350-member parliament.

Sr Landelino Lavilla, who led the party into the election, resigned at a tense meeting last Friday night and said he was withdrawing from politics.

The party has set up a caretaker committee to fulfil its two remaining tasks—to look into ways of settling its debts and to call an extraordinary congress to dissolve it formally.

Local party organisations are left to decide for themselves what other party camp they are to join for local elections in the spring.

A large part of the Christian-Democrat faction of the party is expected to join other former UCD members in the Partido Democrata Popular, which is allied to the main conservative opposition party, Alianza Popular.

Italy in bid to tie up gas deal

BY JAMES BUXTON IN ROME

SIG NICOLA CAPRIA, Italy's Foreign Trade Minister, was due to fly to Algiers yesterday in an attempt to settle outstanding issues on the contract for gas supplies from Algeria via the trans-Mediterranean pipeline.

On Saturday, the Italian Cabinet approved a draft law under which the Government will compensate ENI, the Italian state energy concern, for the premium on the market price of the gas, which the Government deemed it politically expedient to pay Algeria.

Italy and Algeria reached an outline agreement on gas supplies through the pipeline last September, more than a year and a half since the pipeline was completed.

Sig Capria agreed to pay Algeria a price which worked out at the time at $4.41 per million British thermal units (BTU) of gas.

ENI had held out for an economic price for the gas, refusing to offer more than $4.01 per million BTU. It said that the gas would not be competitive with other fuels at a higher price.

Under the draft legislation agreed at the weekend, the Government will pay up to L540bn (£252m) over the three years to the end of 1985 to compensate ENI's gas subsidiary Snam for the "political" premium. The law has still to be passed by parliament and its details have not been spelt out.

Sig Capria is now hoping to get the Algerian authorities to agree to two important conditions before a technical agreement, which would allow gas to start flowing through the pipeline, is signed.

One is for a low minimum quantity of gas which Italy is obliged to take each year, since supplies are on a "take or pay" basis, and the network to utilise the gas in southern Italy is still far from complete.

The other is to obtain a commitment from the Algerians that they will be prepared to renegotiate the whole price formula to take account of possible changes in the energy scene after three years, although the agreement in principle runs for 25. Algeria has shown little willingness to accept these demands.

W. German freight decline

BY JOHN DAVIES IN FRANKFURT

THE West German freight transport industry faces another difficult year, according to a study published by the Munich-based IFO Economic Research Institute yesterday.

But the decline in the volume of traffic is unlikely to be as sharp as in the last two years, because of some signs of economic upturn.

The railways, which last year transported 308m tonnes of goods, down 8 per cent, are expected to find business down a further 2.4 per cent, with foreign traffic affected more than domestic freight.

Long-distance road transport, down 1.7 per cent to 292.6m tonnes last year, is expected to decline a further 0.7 per cent with fewer exports but slightly more imports.

Short-haul road transport is expected to gain from an improvement in the German building trade, with overall volume down only 0.3 per cent this year, compared with a 5.2 per cent drop to 1.9bn tonnes last year.

River and canal shipping, down 4.2 per cent last year, is likely to transport more building materials, but to lose steel and chemical industry trade, with overall volume off 0.5 per cent. Seagoing shipping, which carried 4.6 per cent less trade last year, is expected to land 1.4 per cent less this year.

Airfreight is likely to be slightly more affected than last year, unlike other transport sectors. Freight volume, which declined last year by 0.3 per cent, is expected to be down a further 0.5 per cent.

STATISTICAL TRENDS: INDIA

Current year sees little real growth

SINCE 1970-71, the Indian economy has overall shown a reasonable growth rate, although not as high as in some other east Asia countries. The year 1982-83 is expected to show little if any real growth in gross national product (GNP) and in per capita terms, India has some way to go before it catches up with other more developed economies in the area.

Average net domestic product varies as much as three times between states. It is highest where the majority of the population is urban.

The current account went into deficit in 1979 and since then has continued to deteriorate. This was not helped by the increases in oil prices, which also caused a considerable jump in wholesale and consumer prices. In the 12 years since 1970-71, India averaged 8.6 per cent inflation annually and the projected rate for 1982-83 is 12 per cent.

The Indian currency, the rupee, is fixed in relation to a basket of currencies, with the pound sterling as intervention currency. In 1981, the rupee dropped in relation to the U.S. dollar. After receiving an IMF loan to cushion a deteriorating balance of payments position, India in 1982 was engaged in re-structuring the economy to close the trade gap. The rupee remained steadier during the year.

In 1982, the stock market index dropped back from the highs of the 1981-82 year.

Together with increases in 1981-82 in debt and the costs of servicing it, and a cutback in government expenditure relative to GNP to reduce the deficit, the number of industrial collaborations was also reduced.

With half of India being arable land, and over 70 per cent of the workforce engaged in agriculture, it is not surprising that agriculture makes a large contribution to the national product. But its share of the total is decreasing and that of the service sectors is increasing.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department.

Because of the vagaries of the weather, the aim to reduce wheat imports received a setback in 1981-82. After three years when imports averaged 0.3m tonnes per year, well down from 2.9m in 1970-71, they jumped again to 2.3m in 1981-82 and 3.5m is projected for 1982-83. The latest economic plan requires foodgrain production to total 150m tonnes in 1984-85. The 1982-1983 projection is 122m tonnes, well down on the official target of 141.5m.

India is dependent on the industrial countries for its export markets. Without a resumption of growth in these countries' economies, and India has had little success in diversifying from them, an improvement in India's exports may be delayed.

With crude petroleum being a significant proportion of India's imports, exploration projects are busily searching for more domestic resources.

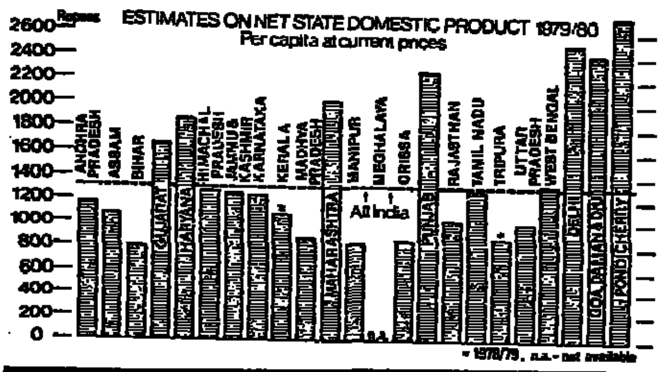
INDIA WITHIN AN ASIAN PERSPECTIVE GNP

	Annual rate of real growth (%) 1970-76 ave.	1977	1978	1979	1980	1981	Per capita ($) 1980
India*	2.9	8.1	4.2	−5.0	7.5	4.5	240
Bangladesh	1.3	1.3	7.6	4.4	3.7	7.3	120
Hong Kong	7.2	9.8	10.0	8.6	9.8	10.4	4,190
Indonesia	7.1	7.4	7.2	5.4	9.6	8.2	420
Korea, Rep. of	10.5	10.1	11.3	7.1	−3.5	8.0	1,520
Malaysia	7.4	7.6	7.4	8.5	8.1	6.8	1,660
Pakistan	4.1	2.5	7.0	4.7	7.0	5.7	300
Philippines	6.6	6.0	5.8	6.0	5.8	4.8	710
Singapore	8.4	8.1	8.6	9.4	10.2	9.9	4,460
Sri Lanka	2.9	4.3	8.1	6.3	5.8	5.5	270
Thailand	7.0	7.3	12.0	6.1	5.8	7.6	670

* Fiscal year.

Source: Asian Development Bank

General



CURRENT ACCOUNT (Billion rupees)

Financial year	bn rupees	% of GNP
1976/77	+15.26	+1.9
1977/78	+17.35	+1.9
1978/79	+ 1.73	+0.2
1979/80	− 2.34	−0.2
1980/81	−25.00	−2.0
1981/82	−31.50	−2.6
1982/83*	−41.50	−2.7

* Projection.

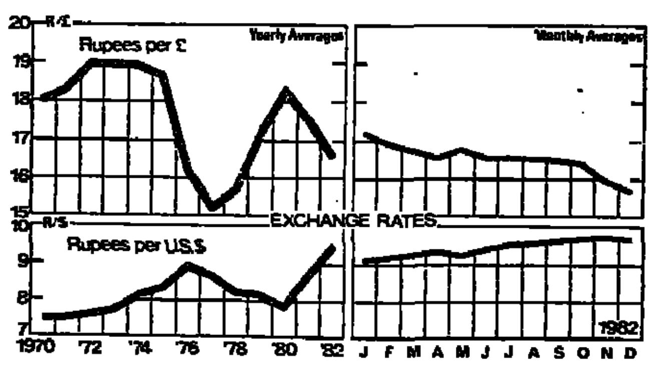
Sources. Reserve Bank of India Bulletin; Government of India

INFLATION (Average annual % change)

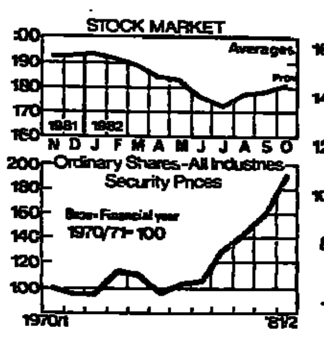
Financial year	Money supply (M1)	Consumer prices	Wholesale prices
1978/79	19.7	3.4	4.5
1979/80	15.8	12.4	21.5
1980/81	16.4	12.6	16.7
1981/82	7.3	8.8	2.1
1970/71-1981/82	14.2	8.6	9.7
1982/83*	13.0	12.0	10.0

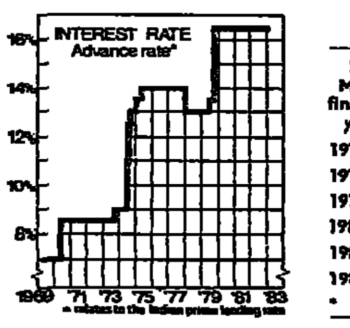
* Projection.

Source: Centre for Monitoring Indian Economy



Finance





RESERVES AND DEBT (Billion rupees)

End March financial year	Foreign exchange reserves	Debt servicing	Outstanding external debt
1970/71	4.38	4.12	65.77
1978/79	52.20	6.97	117.68
1979/80	51.64	6.78	121.78
1980/81	48.22	6.87	134.79
1981/82	33.54	8.87	154.58
1982/83	25.00*	8.63†	185.00*

* Projection. † Official target.

Sources: CMIE: Government of India

PUBLIC FINANCE

	Government expenditure rupees bn (% of GNP)	Deficit in government transactions rupees bn (% of GNP)
70/71	88.47 (22.1)	5.52 (1.4)
78/79	282.55 (29.0)	25.12 (2.6)
79/80	316.69 (29.8)	38.62 (3.6)
80/81	382.02 (30.4)	58.46 (4.6)
81/82	408.00 (27.8)	49.57 (3.4)
82/83*	484.00 (31.5)	55.00 (3.6)

* Projection.

Sources. CMIE. Government of India

Industry

OVERSEAS INDUSTRIAL COLLABORATION

Number of agreements between Indian and overseas companies

	UK	U.S.	West Germy	Japan
1976	54	69	58	10
1977	59	54	55	20
1978	61	58	58	28
1979	63	48	55	5
1980	110	124	100	34
1981	79	84	75	27
Totals 1957-82	1,534	1,302	1,173	557

Source: Indian Investment Centre

NET NATIONAL PRODUCT BY SECTOR

% Contribution at constant 1970-71 Prices

	1970-71	1981-82*
Agriculture, allied activities	48.5	41.5
Mining	1.0	1.0
Industry	17.2	15.5
Construction	5.3	4.5
Electricity, gas, water supply	1.2	1.4
Transport communication, trade	16.1	18.5
Other (incl. Govt.)	13.7	17.6
	100.0	100.0

* Estimate

Source Government of India

INDUSTRIAL PRODUCTION (Indices 1970 = 100)

	1976	1980	1981	Aug. 1982	Aug. 1981
Mining, quarrying	136.8	144.2	170.2	167.0	152.0
Manufacturing	130.3	146.1	157.7	156.3	155.5
Food	110.8	128.2	141.6	127.5	116.0
Beverages	262.6	303.6	397.4	481.9	413.5
Textiles	105.7	115.3	117.0	104.7	121.7
Chemicals & products	155.4	183.3	207.4	214.4	209.7
Petroleum & coal products	124.8	137.4	160.6	188.5	166.8
Basic metal industries	139.7	133.7	148.1	158.7	146.7
Machinery (ex. electrical)	165.0	220.1	235.6	232.4	234.0
Electrical machinery	129.9	170.0	180.0	167.2	160.5
Electricity	160.3	197.3	219.6	241.8	224.1
General index	133.7	150.6	164.6	165.2	161.5

Source: Government of India Central Statistical Organisation

MOTOR VEHICLE PRODUCTION

Monthly averages—thousands

	Passgr cars	Comm. vehicles
1975	2.6	3.2
1976	3.2	3.5
1977	4.0	3.0
1978	3.8	4.0
1979	3.6	4.9
1980	3.9	5.5
1981	5.1	6.7

Source. UN Monthly Bulletin of Statistics

Agriculture

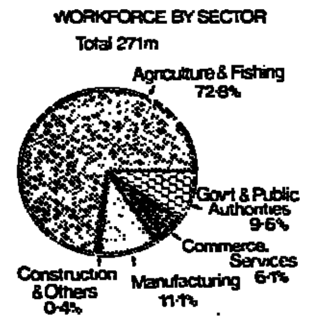
FOODGRAIN PRODUCTION (Million tonnes)

To end-June	Rice	Wheat	Pulses	cereals	Total
1971/72	43.1	26.4	11.1	24.6	105.2
1972/73	39.3	24.7	9.9	23.1	97.0
1973/74	44.1	21.8	10.0	28.8	104.7
1974/75	39.6	24.1	10.0	26.1	99.8
1975/76	48.7	28.9	13.0	30.4	121.0
1976/77	41.9	29.0	11.4	28.9	111.2
1977/78	52.7	31.8	12.0	30.0	126.4
1978/79	53.8	35.5	12.2	30.4	131.9
1979/80	42.3	31.8	8.6	27.0	109.7
1980/81	53.2	36.5	11.2	29.0	129.9
1981/82*	54.0	36.5	12.0	29.5	132.0

* Estimates.

Source: Government of India Economic Survey

Labour

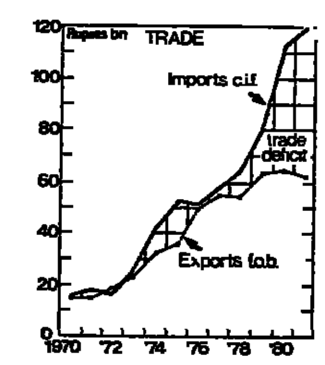


EMPLOYMENT BY INDUSTRY ('000 nos)

	Public sector 1980	Private sector 1980
Plantation forestry	1,082	874
Mining & quarrying	789	125
Manufacturing	1,414	4,394
Construction	1,065	73
Electricity	658	35
Trade & commerce	107	275
Transport & communications	2,645	71
Finance, insurance, real estate	684	210
Services	7,221	1,174
Total	15,694	7,232

Source. Economic Survey, Government of India, 1980-81

Trade



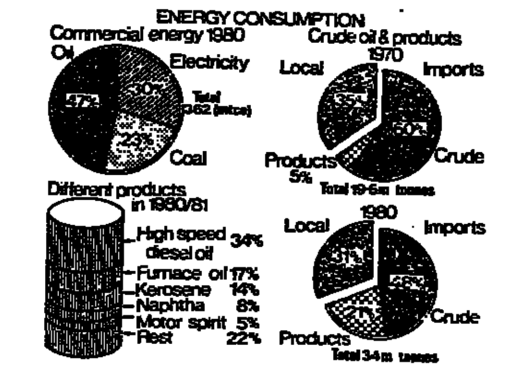
Energy

CRUDE PETROLEUM IMPORTS of East Asian net oil importing countries ($bn)

	1973	1978	1979	1980	1981*
Net importing countries	1.5	9.0	12.7	22.4	26.0
India	0.3	2.0	3.1	6.0	7.0
Hong Kong	0.2	0.6	0.9	1.5	1.9
Korea	0.3	2.2	3.1	5.6	6.4
Pakistan	0.1	0.4	0.4	0.9	1.1
Philippines	0.2	0.9	1.1	1.9	2.2
Sri Lanka	0.1	0.2	0.3	0.5	0.4
Taiwan	0.1	1.6	2.2	4.1	4.8
Thailand	0.2	1.1	1.6	1.9	2.2

* Preliminary.

Sources: Euromoney. IMF. national sources



VILLAGE ENERGY SUPPLY AND CONSUMPTION % Contribution

Source	%	Sector	%
Human	7.7	Agriculture	4.3
Men	3.1	Domestic	88.3
Women	3.8	Lighting	2.2
Children	0.8	Transport	0.5
Animal	2.7	Industry	4.7
Firewood	81.6		
Kerosene	2.1		
Electricity	0.6		
Other	5.3		

Source: Study on Rural Energy Consumption Patterns (1981) by Centre for Application of Science and Technology to Rural Areas

WORLD TRADE NEWS

Exporters are preparing for more lean times in Lagos, **Our World Trade Staff reports**

Nigeria's trading partners take a longer view

SWEEPING CHANGES in Nigeria's import policy in response to falling oil revenue is forcing trading partners to take a longer perspective of Europe's largest market in Africa.

Measures to curb imports were first introduced last April in response to a drop in oil production from more than 2m barrels a day (b/d) in 1981 to a daily average of 1.3m last year.

At the end of January, Nigeria published an extensive list of goods requiring import licences in an effort to reduce total foreign exchange outflow (trade and service payments) to N600m (£600m) a month, half the level of a year ago.

Despite the curbs, arrears in trade payments have been mounting. Bankers put the figure at between $3bn and $5bn, stretching back 16 months in some cases. Oil production dropped to 800,000 b/d last month and has since fallen to 700,000 b/d or less as buyers hold back in expectation of price cuts.

British exports fell to an estimated £1.2bn last year, down 20 per cent on the 1981 level. The Nigerian measures, however, are expected to take a further toll this year.

Earlier this month, the British Export Houses' Association warned that payment arrears were placing many of its members under financial strain and called on Mr Peter Rees, British Trade Minister, to bring "pressure to bear on the Nigerian authorities to meet their financial obligations."

A package of measures to reduce the payment backlog is being put together by the Central Bank, including negotiations for a Eurocredit of about $1bn according to banking sources, a substantial loan from Saudi Arabia, as well as the import restrictions already in force.

But the view of most bankers and businessmen is that it will be months rather than weeks before the package will be implemented and the uncertain oil market could mean further delays.

"It may be that the worst has yet to come," said one banker. "Companies must be prepared for a lean time."

The concern of British exporters is echoed in other European countries and in Japan.

● West German companies have reported a sharp fall in exports to Nigeria in the final quarter of 1982, after a period of modest decline. In the first nine months of 1982, exports to Nigeria, the most important market for West German industry in black Africa, fell by 11.2 per cent to DM 2.9bn (£780m). That is, however, less than 1 per cent of West Germany's total annual exports of DM 314bn.

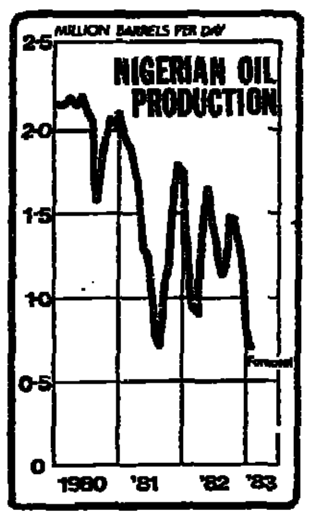
Imports to Nigeria rose significantly, up 7.3 per cent to DM 3bn partly reflecting the growing importance of Nigeria's oil. It is now the fourth largest West German oil supplier.

West German exporters are reporting payment delays of between four and eight months. Orders are being cancelled, but not for prestige and major infrastructure projects.

Companies affected cover a wide range of West German industry. Nigeria is an important market for construction firms, industrial plant exports, electronic equipment from companies such as Siemens, and for automobile manufacturers such as VW and Mercedes.

● In France companies in the construction and engineering sectors are likely to be among the hardest hit by any permanent economic problems in Nigeria. The country was France's biggest customer for new capital goods orders placed last year, valued at FFr 13.5bn (£1.3bn).

French officials say that some Nigerian contracts and projects are being slowed down, and there is a clear risk of more delays in the future.



But the message from leading French companies with business in Nigeria is that Lagos is still giving priority to infrastructure projects with foreign participation.

Peugeot, the number-two French vehicle manufacturer, which has been operating a large car assembly plant in Kaduna since 1975, has had some problems since the oil price started to drop last summer in bringing parts into Nigeria.

But production last year was still around 60,000 units, just short of the plant's capacity of 65,000. A Peugeot spokesman said bearing in mind the importance of the assembly plant to the Nigerian economy, the Government is giving priority to bringing in components and motors from France (tyres and other lighter parts are made locally). Production for the whole of 1983 is scheduled to be close to full capacity.

The biggest contract signed last year was the $1bn Lagos metro project, clinched by the Interinfra consortium, which involves a number of leading electrical and construction companies like SGE, Spie Batignolles, and Alsthom Atlantique.

Interinfra said that the preliminary engineering work was going ahead on schedule, although the first breaking of soil would not take place for another two months or so. The Lagos state government has just made the first down-payment covering 10 per cent of Nigerian costs of the deal, with another 5 per cent due later.

Financing of the scheme has already caused long drawn out problems, and the federal government has so far given approval for only half the foreign loans needed to back the project, with permission for the rest, it is hoped, coming next year.

● In Japan, companies doing substantial trade with Nigeria were unanimous in pointing out that it was more important to consider Nigeria's long-term economic prospects than to be swayed by the immediate consequences of declining oil revenues.

Officials from C. Itoh and Marubeni, the diversified Japanese trading companies most heavily involved with Nigeria, noted that last April's import controls and subsequent measures had adversely affected business and that the current situation was clearly "difficult," although Nigeria's economic potential was "still enormous."

Most seriously affected are Japanese vehicle exports to Nigeria, which had risen from about 40,000 units in 1979 to 83,000 in 1980 and 148,000 in 1981, but plummeted following last April's import control restrictions.

In the April-December period, only 36,000 vehicles were exported, a good percentage of which were minibuses, which were exempt from either bans or sharply higher tariffs in the April measure.

Komatsu, Japan's leading producer of construction machinery reported that its share of Nigeria's imports of such goods had risen from 15 per cent in 1981 to 25 per cent last year, but sales of construction machinery from all over the world to Nigeria had declined from between 1,500-2,000 units in 1981 to 600 units last year. Komatsu cautiously commented that it does not expect much improvement this year.

Mr H. Tanaka, Marubeni's general manager for Europe, Africa and the Middle East, is "not so pessimistic" about the longer term because of Nigeria's wealth of human and natural resources.

He thinks that business with Nigeria involving infrastructural development — power generators, telecommunications, railway equipment, agricultural supplies and technology, and construction materials—will remain viable, as will joint ventures designed to enhance Nigerian industrialisation. Marubeni is a partner in projects covering textiles, steel and electric home appliances. "There has never been a failure of a Marubeni joint venture in Nigeria," he says.

He is less sanguine about consumer items, above all cars, which Marubeni does not sell to Nigeria.

Mr Tanaka added that official foreign institutions, like Britain's ECGD, or Miti in Japan, or the U.S. Eximbank often tend to "over-react" when the Nigerian authorities appear to interfere with commercial movements, as was the case last April.

Companies like Marubeni, he maintains, simply appreciate that this is a Nigerian way of doing things.

"There have been times when we have suffered delayed payments, import restrictions and so forth, but we were encouraged to persevere and did," he said. Even with the current difficulties "we don't see any major basic problem for the future."

Interflug loses out in Greek price war

BY LESLIE COLITT IN BERLIN

INTERFLUG, the East German airline, has abruptly cancelled a lucrative contract with a West Berlin tour operator in a move which illustrates the strenuous attempts East European airlines have made to undercut their Western competitors.

It is almost certain that Interflug was forced to withdraw charter flights to Greece from April because Bonn — under pressure from western carriers — persuaded the Greek Government to refuse further landing rights to the East German airline.

Thousands of West Berlin tourists are left with cancelled bookings and the tour operator, Marcks-Reisen, is said to be more than DM1m (£268,000) in debt to Interflug.

Last year, Interflug attracted 60 per cent of the charter business to Greece from West Berlin's Tegel airport by offering Marcks seat prices which were up to DM200 less than those of West Berlin-based airlines.

Thrifty West Berliners were picked up by an East German bus, which drove them through the wall in the south eastern corner of the city, where they emerged virtually in front of Schoenefeld terminal.

The resulting loss of charter business to Western carriers at Tegel airport — Dan Air, Pan Am and Air Berlin — was beginning to hurt. The city government of West Berlin asked the West German Government to intervene.

Interflug carried most of the West Berlin charter passengers to Athens on scheduled flights, a practice which is forbidden to Western airlines.

Although Interflug is regarded as one of the best of the Comecon airlines, East Germany's lack of a convertible currency and instructions from the authorities to boost hard currency earnings meant it was offering seats at a price which Western airlines said would barely cover their fuel costs.

However, even Interflug was having its prices undercut on the Berlin-Athens route by Bulgaria's Balkanair. But Balkanair landed West Berlin passengers in Sofia where they sometimes waited for up to a day before being forwarded to Athens.

Interflug's problems in Greece have given heart to the Western carriers at Tegel airport, who are hoping to regain the business which used to be theirs.

Turkish Airlines, which carry Gastarbeiter from West Berlin to Ankara and Istanbul, has also discovered the East Germans are no slouches when it comes to cutting prices. Interflug was able to lure away so many Turkish charter passengers from the Turkish national carrier that Turkish Airlines lost heavily last year.

Not easily discouraged, Interflug has now announced a scheduled flight to Tunis from Schonefeld, although it does not yet have an air traffic agreement with Tunisia.

Tickets have gone on sale in West Berlin which are about DM 100 less than the price from Tegel airport in the West.

SHIPPING REPORT

Owners hope oil-price cut will boost tanker market

BY ANDREW FISHER, SHIPPING CORRESPONDENT

TANKER OWNERS hope the latest wave of oil-price cuts will help to revive the depressed market for oil-carrying vessels.

Nearly 80m deadweight tons are currently inactive around the world, mostly large tankers. Much of this is unlikely ever to trade again.

At this stage, ship brokers are unclear whether rates will start to move up. Galbraith Wrightson pointed out that a good deal of latent business could emerge in the next 10-14 days.

It thought the Mediterranean area could become more lively, since a large number of fixtures has been concluded from North African terminals.

But in the Gulf, orders have been desultory. Despite more Iraqi claims that tankers off Iran have been hit during hostilities, loadings from Kharg Island have continued, though at stagnant rates.

On the dry-cargo market, trading was livelier at the end of the week. Even so, freight rate levels showed no real upturn and some were down.

● One sector that could rebound quickly once the world economies pick up is the roll-on/roll-off (ro-ro) freight market.

Currently, there are few signs of any upturn. In his annual review, Norwegian broker P. F. Bassoe noted "few signs of an early upswing." But, "if tradition holds good, the 'ro-ro' markets will be one of the first to notice a general improvement."

Last year, rates slumped for all "ro-ro" sizes. For the largest, the decline was more than 30 per cent, and for small and medium sized ships, 50 per cent. Summer was bad and the slight rise in the autumn was short lived.

Thus, many of these ships where cargoes can simply be driven on and off on trailers were laid up.

Bassoe cited the Caribbean and the Miami-Venezuela route, once a "Klondike" for operators, where cargo supply was 8-10 per cent lower last year and rates down at least 30 per cent.

The hard-pressed Mediterranean market suffered from U.S. trade policy towards Libya and the latter's reduced oil production. The closing of the border between Syria and Iraq in April curbed demand further in the region.

Bassoe said around 20 ships of more than 40 trailer capacity were sold in 1982, of which six were on the Scandinavian market. But sales were limited compared with inquiries.

Another pessimistic factor, noted by Galbraith Wrightson, is the further import restrictions decided by Nigeria, an important market. It also remains to be seen if various deals being discussed to transport vehicles to the Middle East would be concluded.

Turkey to reach accord with Iraq on payments

BY METIN MUNIR IN ISTANBUL

CENTRAL BANK representatives of Turkey and Iraq are to meet in Baghdad early next month to establish a mechanism to finance exports from Turkey to Iraq, which is experiencing severe payment problems.

The agreement was reached between Mr Bulent Ulusu, the Turkish Prime Minister, and Mr Taha Yassin Ramadan, the first Deputy Prime Minister of Iraq, who concluded a two-day official viist to Turkey last week. Mr Ramadan asked Turkey for a two-year revolving loan to finance its imports from that country.

Iraq is Turkey's second biggest export market and its biggest supplier of crude oil. Exports to Iraq last year were $600m (£392m) and imports of crude oil amounted to $1.2bn.

"The Turkish Central Bank is planning to use commercial instruments like acceptance and export refinancing to fund exports to Iraq," an official said. "This will be on a short-term basis with maturity not exceeding 12 months. The Central Bank plans to discount commercial papers issued by Iraq banks."

The Turkish Central Bank will shoulder the Iraqi risk by asking foreign banks to finance Turkish exporters to Iraq and guaranteeing that Turkey will pay if Iraq fails to meet its commitments on maturity.

World Economic Indicators

TRADE BALANCES

		Dec '82	Nov '82	Oct '82	Dec '81
UK £bn	Exports	5.001	4.934	4.703	4.702
	Imports	4.409	4.464	4.440	4.371
	Balance	+0.592	+0.470	+0.259	+0.331
U.S. $bn	Exports	16.335	15.693	16.698	18.885
	Imports	18.865	18.937	21.096	19.746
	Balance	−2.530	−3.244	−4.398	−0.861
W. Germany DMbn	Exports	38.01	36.60	35.87	35.95
	Imports	31.62	31.80	31.88	30.81
	Balance	+6.40	+4.80	+4.00	+5.14
France FFrbn	Exports	55.6	57.6	56.3	51.27
	Imports	61.6	64.5	62.6	59.16
	Balance	−6.0	−6.9	−6.3	−7.89
		Nov '82	Oct '82	Sept '82	Nov '81
Japan Ybn	Exports	2,899	3.021	2,935	2,908
	Imports	2,830	2,859	2,704	2,792
	Balance	+69	+162	+231	+116
Belgium BFrbn	Exports	202.50	237.20	234.13	178.73
	Imports	222.60	209.40	216.17	195.20
	Balance	−20.10	+27.80	+17.96	−16.47
Netherlands Flbn	Exports	15.5	14.6	15.1	15.9
	Imports	15.4	13.9	14.3	13.8
	Balance	+0.1	+0.7	+0.8	+2.1

Bids open for Siberian gas turbines

By Paul Cheeseright, World Trade Editor

THE Soviet Union is considering tenders from major Western equipment manufacturers and contractors for the construction of a booster station for the Orenburg gas pipeline. Such a station would cost up to $40m.

The pipeline was constructed in the 1970s, using Western equipment which included turbines designed by GE of the U.S. Up to 14 turbines, with a value of around $10m will be needed for the new station.

The bidding denotes a return to normal commercial relations in the gas pipeline business, following the disputes in the West last year over the provision of equipment for the export-based Urengoi pipeline.

The Orenburg pipeline runs from Siberia to the Czechoslovak border and the booster station is thought by Western industrialists to be needed for an increase in supplies to Comecon countries.

The turbines needed are GE Frame III machines, a smaller type than those to be used on the Urengoi pipeline. This means that Alsthom-Atlantique of France, which does not make such turbines, will be excluded from the bidding.

The Soviet authorities have invited other manufacturing associates of GE to bid. These include John Brown Engineering of Clydebank, Nuovo Pignone of Italy, AEG-Kanis of West Germany, Hitachi of Japan and Thomassen of the Netherlands, all of which are previous suppliers to the Soviet Union.

Construction of the station is likely to be supervised by a project management company, although the equipment contracts will be let separately. Creusot-Loire of France and Mannesmann of West Germany are understood to be bidding for the project management.

Westland wins £2.5m U.S. order

By Michael Donne, Aerospace Correspondent

WESTLAND HELICOPTERS of Yeovil, has won an order worth more than £2.5m from Aviation Consultants and Services of the U.S. for two Westland W-30 helicopters, for delivery this summer.

The aim is to use the helicopters for an "on demand" VIP charter service. Mr Roy Secrest, president of Aviation Consultants, said the choice of the W-30 followed six months of extensive study of other available types.

● National Airways Corporation (NAC), a subsidiary of Lonrho, has placed an order with Edgley Aircraft of Old Sarum, Wiltshire, for four of the small slow-flying Optica observation aircraft, worth about £1.5m, with production positions reserved for another 21 aircraft.

NAC has been appointed the distributor for the Optica for countries in Southern Africa. Edgley Aircraft is currently negotiating distributorships in several other countries, which it is hoped will lead to further sales successes overseas.

W. Germans in Iranian sewing machine deal

PFAFF, the West German sewing machine manufacturer, has signed a contract to help Iran build a factory to make sewing machines under licence, John Davies reports from Frankfurt.

The German company will give technical advice on construction of the plant about 120 km from Tehran and will initially sell parts for assembly for DM 40m (£10.75m). It will also receive undisclosed licence fees.

Herr Joseph Kefer, who negotiated final details of the contract — Pfaff's first investment in the country — in Iran earlier this month, said in Karlsruhe that the factory would have eventual capacity of 100,000 sewing machines a year.

Paper machinery contract for Beloit

BELOIT WALSMSLEY, the Bury, Lancashire unit of Beloit, the U.S. paper machinery manufacturer, has foiled Scandinavian and West German competition to win a £2.75m contract for the rehabilitation of plant at a Swedish mill, our World Trade Staff reports.

A. B. Iggesund, the company owning the mill at a town of the same name, has placed an order for the rebuilding of one of its two machines for the production of high quality board, and for surface coating equipment for the other.

Beloit had an initial advantage in the chase for the contract as it provided the original machines in 1963 and 1973. Most of the company's production is exported


A step-by-step guide to what our competitors call a fully automated office.
A recent survey by Marplan showed that business executives wasted almost a third of their time trying to get information from inside their own organisations.
The problem (and it's a serious one) lies at the top right-hand corner.
That word processor.
It can't communicate with other word processors or with the main computer.
So it can't do what an automated office should do–which is to speed up the flow of information.
If you want to save that valuable time, you'd be better off with a Honeywell automated office.
You can run it without leaving your desk; because all our systems can talk to each other.
All the information you need is there–literally at your fingertips.
So, why not give us a ring on 01-568 9191 (ext 471)–and we'll tell you more about real office automation.
That way you'll spend less time exercising your legs and more time exercising your mind.
A computer should be the end of your problems, not the beginning.
Honeywell
HONEYWELL INFORMATION SYSTEMS LTD. GREAT WEST ROAD, BRENTFORD, MIDDX TW8 9DH.

Airlines begin talks to settle landing fee row

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

ATTEMPTS are being made to settle the High Court action in London in which 20 international airlines allege they are being required to pay an unlawfully high price for operating into Heathrow Airport.

The action, against the British Airports Authority and the Secretary of State for Trade, which was due to start tomorrow and last three months, has been adjourned until February 28.

The airlines, headed by Pan American, Trans World, Air Canada and Air France, complained about a 35 per cent increase in landing and other charges, imposed in April.

A lengthy preliminary legal skirmish, beginning in the Commercial Court and ending in the House of Lords, took place over the airlines' demand to see ministerial working papers and other documents, relating to the formulation of policy on the BAA.

The Law Lords rejected the airlines' final appeal last month, but have not yet given their reasons for doing so.

It seems likely that the Lords' decision was one of the considerations that prompted the parties to begin behind-the-scenes talks to try to settle the action out of court.

Another factor could be that the airport charges have been frozen by the BAA since April 1981, which must have taken some of the sting out of the increase as far as the airlines are concerned.

Also, their minds may very well have been turned towards negotiation by the prospect of the massive legal costs involved in fighting such a long and complex action.

In addition there is reason to believe that some of the smaller airlines have become rather unhappy about their involvement since the writ was first issued.

Higher fares sought for UK air routes

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE MAJOR airlines flying UK domestic air routes will today begin to seek Civil Aviation Authority approval to raise fares by amounts averaging between 8 and 10 per cent from April 1, in a bid to reduce losses on those routes of up to £50m a year.

The airlines seeking rises include British Airways, British Caledonian, British Midland, Brymon, Air Ecosse, Genair and Guernsey Airlines.

The proposed rises are being opposed by a number of regional consumer and other bodies.

The hearing, believed to be the longest yet planned for any domestic air fares rises, is set to last five days.

The hearing will be in two parts, the first dealing with the immediate fares rises sought, and the second dealing with plans for the Civil Aviation Authority to handle any emergency requests for further rises that may occur before the early part of next year.

Company pension changes considered

By Eric Short

THE GOVERNMENT is considering freeing employees from the compulsion to be members of their employers' pension schemes under proposals contained in a Treasury document and revealed over the weekend by the BBC.

These would give employees the right to choose between joining a company pension scheme and making their own pension arrangements. At present, the vast majority of employers with pension schemes make it a condition of employment that employees join the scheme.

The Government puts forward three reasons for this change. Firstly, it will encourage job mobility. The loss of pension rights is held to be a bar to many employees changing jobs.

Secondly, it is felt that employees will take more interest in their investment, if they have a direct personal stake.

Finally, it is felt that individuals will be more adventurous in investing their money than fund managers.

The scheme envisages that the employee who elects to make his own arrangements would either take out a pension contract with a life company, akin to the present system for the self-employed, or he could invest directly into securities approved by the Government.

Under this latter scheme it appears that at least 50 per cent would have to be in trustee securities, but there would be wide freedom over the remainder, including venture capital investment.

Power chief denies boardroom battle over design centre

BY DAVID FISHLOCK, SCIENCE EDITOR

REPORTS of a boardroom row over plans to dismantle Barnwood, the Central Electricity Generating Board's design and engineering centre near Gloucester, have been denied by the CEGB chairman, Sir Walter Marshall.

Sir Walter explained that a nuclear demarcation dispute, rumbling for several years between Barnwood and the National Nuclear Corporation, had come into the open.

The dispute is about work-sharing between the engineers designing Sizewell B, the CEGB's new nuclear project. There is a long history of acrimonious relations between the CEGB and the NNC's Whetstone division, where the Sizewell B project work is centred.

"We are trying to build up on the good spirit created by the task force," Sir Walter said yesterday.

"The key appointment for the post of Barnwood director-general is expected to come before the CEGB board next week. Sir Walter wants to see Barnwood taking a bigger role in the joint NNC-CEGB project team, headed by Mr Ted Pugh, a former CEGB project chief. An alternative CEGB view is that Whetstone should have much tighter supervision from Barnwood.

Sir Walter's approach has led to conflicts with Whetstone, which provides most of the joint project team, and within the CEGB, where there is resentment at the idea of transferring key engineers into what is seen as the weaker Whetstone establishment.

Nuclear electricity reaches record level

BY OUR SCIENCE EDITOR

A RECORD for British nuclear electricity production is expected to be announced by the Government this week.

Last year nuclear energy accounted for about 16 per cent of the electricity Britain's power stations sent out. Nuclear generation by the electricity generating boards fell just short of 16 per cent, but this figure is exceeded when power sold by British Nuclear Fuels from its Calder Hall and Chapelcross reactors is added.

The corresponding figure published by the Energy Department last month, for the period January-November 1982, was less than 14 per cent.

Production is up because all but one of the 22 reactors commissioned by the electricity boards have been returned to power, following a major refurbishing programme for the Magnox reactors.

● The nuclear accident at Windscale, Cumbria, in 1957 was about seven times as serious in its effects on human health as the accident at Three Mile Island in the U.S. in 1979, according to a newly published study by the National Radiological Protection Board, the Government's watchdog on radiation hazards.

High level of imports cause UK glovemakers to suffer

BY ANTHONY MORETON

WHEN the 20th Glove Fair opened in London last week only four of the 20 or so exhibitors were manufacturers. The rest were wholesaler-retailers, and there is little love lost between the two sides of the industry.

In the past 30 years the British industry has been badly hit by the influx of cheap gloves from the Far East. Among the manufacturers there is a strong feeling that the wholesalers have done little to protect or even help the British industry.

Yeovil, in the south-west England, the traditional centre of the industry, where gloves have been made for more than 700 years, is a perfect example of what has happened. "There were 44 companies making gloves in and around Yeovil just after the war," according to Mr Norman Burfield, chairman of Burfield (Gloves). "Now there are just seven.

"There used to be a workforce of between 25,000 and 30,000. Now there are 5,000 in gloves and allied leather trades together," he said. "There will always be a glove trade here, but imports are making our life extremely difficult."

Imports account for more than 90 per cent of industrial gloves, with knitted and sports gloves not far behind. Only dress gloves, largely based on leather, have not succumbed to quite the same degree. Imports of these, largely from Italy, Portugal und Romania, have about half the market.

Although the growing influence of foreign supplies first became evident in the 1950s, the big surge has been since the start of the 1970s. In 1970 10m pairs were made in Britain and 4m were imported. By 1979 Britain was making 4m and importing 45m, according to Mr George Gee of James North & Sons, a Manchester manufacturer which specialises in industrial gloves.

GLOVE IMPORTS

	Value £m	Volume pairs m
1981 1st qtr	2.1	12.2
2nd qtr	2.5	9.4
3rd qtr	7.7	n.a.
4th qtr	4.0	12.6
Total	16.3	
1982 1st qtr	2.6	12.8
2nd qtr	3.7	13.7
3rd qtr	8.2	21.7

Last year imports reached 48.2m pairs by the end of September. It is difficult to compare this with 1981 because the trade figures are still affected by the civil servants' dispute that year. But it appears that about 46m pairs, worth £16.3m, entered in 1981.

In the early years many of the gloves came from Hong Kong, some of them originating in China. Chinese gloves could be hand-sewn cheaper than they could be produced on machinery in this country, it is claimed in the industry.

When costs rose in Hong Kong, production switched to Taiwan and South Korea, especially for industrial gloves, and then to countries such as the Philippines.

Mr Burfield says American money has been behind the setting up of plants in both the Philippines and South Korea. "Their labour costs are about an eighth of ours, and this takes some competing with."

Sports gloves, which have been a buoyant area in the last decade, come much more from India and Pakistan with their tradition of working in leather.

There has been something of a revival in buying dress and fashion gloves in the past year or two. "Glove sales," according to one manufacturer, "go with the weather. If it's cold then there is a rush for them. Last year's very cold winter undoubtedly helped us."

The industry believes changes in the Multi-Fibre Arrangement, which came into effect in January and draw a clearer distinction between industrial and other gloves, will help the British industry. Protective action is now possible much more quickly if supplies from a particular source build up rapidly.

New machinery is helping British manufacturers fight back more efficiently, especially in knitted production, and imports of industrial gloves have been affected to some extent by the recession. Fewer people at work means fewer gloves being bought by the big purchasers, such as British Steel and British Shipbuilding.

"This has always been a difficult trade," according to Mr Burfield. "But the answer to cheap imports is not necessarily to ban them. It is to make ourselves more efficient and beat the importers at their own game."

Miners agree to job losses at Kent pit

BY IVO DAWNEY

THE LONG-RUNNING battle to save jobs at the Snowdown colliery in Kent ended yesterday when a mass meeting of miners voted by a substantial majority to accept the National Coal Board's plans for the pit.

Under the deal, up to 250 miners will be offered voluntary redundancy and a further 130 of the 900 strong workforce will be transferred to the remaining two Kent collieries. The remainder will be kept on at Snowdown while deeper seams of coal are developed.

Agreement was reached after a meeting of more than 500 miners from all three Kent pits voted to accept a resolution from the National Union of Mineworkers' area council to accept the NCB plan.

However, there remained strong differences among the NUM leadership which, itself, only agreed to recommend acceptance by a majority vote.

Now the NUM is insisting that further negotiations are held on the future of recruitment and training at the pit

● Leaders of the white-collar National and Local Government Officers' Association are claiming as a major victory an arbitration award to be published today which will mean pay increase of about 12 per cent for about 2,000 registration officers, our Labour Staff writes.

Savings up

NATIONAL Savings receipts were buoyant in January, rising by £80m on the month to £307m.

This brought the contribution to funding by National Savings in the financial year 1982–83 to £2.53bn. There should be no problems in National Savings meeting the Treasury target of £3bn.

The 25th issue of National Savings certificates continues to be a best seller with £113m being bought in January.

Foundries join forces in fight for survival

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

BRITAIN's leading foundry companies are joining forces to sound the alarm to both customers and the Government about the rapid and continuing decline of their industry.

They will warn in a statement, being issued today, that on present trends the "highly competent foundry industry" – vital for Britain to retain its engineering base – could be swept away.

The Association of Major Castings Manufacturers has been formed after informal talks between the big companies, mainly in the West Midlands, on how to cope with the continued erosion of the UK industrial base, particularly the once-important vehicle assembly industry.

Founder members, which count for around 85 per cent of the independent castings suppliers to the automotives industry, include Brockhouse, Castings, Duport, Midland Industries, Triplex, Butler Foundries and William Lees.

Birmid Qualcast, one of the largest iron foundry groups in Europe, which has halved its workforce to 4,000 since 1980, is a leading light.

The new initiative has been prompted by concern that "strategic capacity" is now at risk.

Companies which have shut plants and shed labour in a series of shake-outs throughout the present recession now believe that to go further will make the UK increasingly vulnerable to overseas supplies.

Secret rationalisation proposals, put forward by Lazard Brothers, the merchant bank which successfully promoted a Government-backed scheme for the steel-casting industry, have so far failed to gain support.

Qualifying for Government aid requires at least 80 per cent of the member companies in an industry. The ferrous sector, by contrast with steel, has several hundred member companies.

The fact that "the big boys" have now linked up as a separate association could pave the way for a new industry aid scheme.

Even without government support, however, the new grouping will provide the major companies with the opportunity to discuss planned closures.

The emphasis likely to be stressed by the association today will be on the need to be allowed to compete on equal terms with foreign companies.

There is concern that, while UK foundries have achieved export success, Common Market competitors enjoy "the benefit of more stable demand, less demanding environmental requirements and in certain countries direct or indirect government support."

The formation of the casting association is yet another reflection of the growing concern within the West Midlands that its needs as "the industry heartland" are being ignored by the present Government.

The regional council of the Confederation of British Industry has moderated its controversial demand for assisted area status but is still pressing for some sort of Government recognition

● Talks start today following a 7 per cent wage claim for 25,000 workers in the pottery industry, based mainly in Stoke-on-Trent.

Average weekly pay in the industry is about £98.

Analysts critical on Lloyd's disclosure

By John Moore, City Correspondent

THE business practices of Lloyd's underwriting agencies came under renewed attack last week with the publication of a survey of the financial statements of 274 agencies, prepared by independent analysts, Financial Intelligence & Research.

The main criticism in the latest study was directed at the inadequacy of the disclosure arrangements in the agency companies and the generally unfair treatment of the large dormant membership of Lloyd's – the 16,000 individuals who pledge their capital to allow the Lloyd's market to function.

The report observed that investment management of the premiums passing through Lloyd's syndicates, represents collectively one of the largest investment management responsibilities in the City of London.

The study urged that the new Lloyd's regulations, now being considered, should include the disclosure of any connection between underwriter or agent at Lloyd's and the investment manager, and fees and commissions paid. It also suggested that the agency management agreement should include the terms of investment.

The report also raises fundamental questions about the use of reinsurance as a tax planning device by the underwriters and agents at Lloyd's. It points out that once reinsurance – which is used by underwriting syndicates at Lloyd's to protect themselves against onerous losses – has been used to the reasonable extent of risk protection, it can be used to reduce taxable profits.

Government blamed over spending on construction work

BY ANDREW TAYLOR

THE GOVERNMENT's system of financing public expenditure is a major cause of massive underspending on construction projects, according to a report published today by stockbrokers Phillips & Drew.

The report, published in the brokers' latest Market Review, says that government spending on construction is out of control.

"The fact that central government takes such little regard of the borrowing climate in estimating what local authorities may choose to take up, and that actual spending falls so far below planned levels, is as much a cause for concern as massive overshooting," says Phillips & Drew.

The brokers say that government spending on construction during 1983-84 will not show anywhere near the 10 per cent improvement suggested in the Government's recent expenditure White Paper. Phillips & Drew criticise aspects of the White Paper as confusing and misleading.

The report says speculation that construction spending might rise by 10 per cent was unfounded on several accounts. Firstly, the White Paper in measuring actual expenditure in one financial year against projected expenditure in the following financial year was not comparing like with like. Also, projections for expenditure in 1983-84 had been reduced from those published in the March 1982 White Paper.

"There is therefore as much justification for saying that the Government is continuing to reduce expenditure on construction as for the claim that it is boosting spending.

"The intended gross out-turn may well be 10 per cent above the estimated out-turn for 1982-83, but that is about as much as can reasonably be said in putting the increased expenditure case. In cash terms, the amount of money which the Government intends to spend on construction work – the nationalised industries aside – is actually down by 4 per cent on what the Government had planned to spend during 1982-83," says Phillips & Drew.

The report also remarks on the inconsistency of criticising local authorities for failing to control current expenditure and the exhorting councils to spend more on capital investment. Most capital investment is financed through borrowings, the repayment of which has a heavy impact on current expenditure.

"There is no reason why the factors which have prompted local authorities to under-borrow should not persist," says Phillips & Drew.

"Local authorities are being penalised on current account and all capital spending incurs a current-account obligation at some stage.

"Capital plans are in disarray in local authorities because of persistent switching of central government policies. Local authorities are anxious to keep down rate rises and so will not borrow more, only to have to pay more in interest costs and thereby incur upward pressure on rates.

"To sum up, we do not believe that government construction spending will show anywhere near a 10 per cent improvement. While there may be some benefit from increased levels of repair and maintenance expenditure, both public and private, most of any momentum the construction industry receives this year is likely to come from the private housing sector."

FRAUD, SCUTTLING AND PIRACY FLOURISH

Crime wave on the high seas

BY ANDREW FISHER, SHIPPING CORRESPONDENT

WHEN shipping markets are down, crime on the high seas flourishes. Fraud, piracy, scuttling – all have taken on a new lease of life and been given some modern twists.

With honest profits at sea harder to come by, more and more unscrupulous operators are prepared to divert cargoes, sink ships, or forge documents to defraud traders, shipowners or insurers.

"It's absolutely amazing the ingenuity that goes into thinking up new frauds," says Mr Eric Ellen, who runs the International Maritime Bureau (IMB) near London. "I honestly believed the extent of fraud had been reached."

The collapse in seaborne trade and the rise in dishonesty or financial selfishness has not just affected businessmen. Crew members, too, have simply been abandoned to their fate as shipowners have run out of money.

It is impossible to assess how much fraud goes on. Mr Ellen, former chief constable of the Port of London police, considers that the IMB saved clients some $100m in its first 18 months of operation to mid-1982.

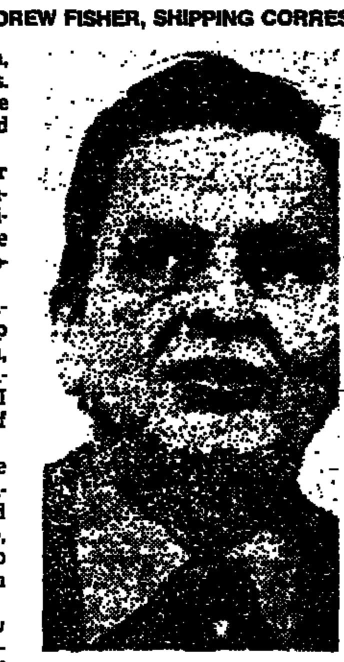
Set up in January 1981 by the International Chamber of Commerce in Paris, the IMB has found itself at full stretch in fighting fraud and advising clients on how to prevent it.

"People are less cautious in a recession," comments Mr Ellen. Last year, the IMB dealt with 78 cases and inquiries, of which 21-dealt with documentary fraud, 19 with charter frauds and disputes, four with scuttling, and nine with vessel deviation and cargo theft.

Few of the frauds make the headlines. But some cases run into tens of millions of dollars, Mr Ellen says – "If these were bank robberies, they'd get a lot more publicity–"

One affair not short of headlines was that of the Salem, scuttled three years ago in the biggest sea fraud of all time after secretly unloading oil in South Africa. Shell last week lost its fight to recover $56m from the tanker's insurers.

There are numerous cases of ships or cargoes simply disappearing, with money siphoned off by the swindlers along the way. Many of these complicated frauds take place in the Mediterranean, Middle East, Africa or the Far East.



Mr Olof Palme: Protest at attack by pirates

The favourites areas for piracy, which carries on the skull and crossbones tradition with knife or pistol rather than cutlass, are Nigeria and Singapore.

Authorities in both areas have strengthened their patrols after widespread complaints in recent years, but the theft goes on.

Mr Olof Palme, the Swedish Prime Minister, complained about piracy on Swedish ships when he visited Nigeria last month. This was after the Tarn roll-on/roll-off container ship, owned by Brostroms, had been attacked by pirates when anchored off Lagos.

They took over the bridge, shot the second officer in the leg, and broke into 19 containers.

Another Brostroms ship, the Crown Atland oil product tanker, was attacked by pirates in the Singapore Straits.

In this incident, the ship was travelling fast. Armed with knives and iron pipes, the robbers rifled cabins but caused no injury. The attack was two weeks ago.

Shipowners now tell crews to light ships at night, double watches, and batten down cargo and accomodation hatches. A U.S. ship, Farrell Lines' Export Challenger, was recently boarded near Lagos, but pirates looted only a few bags of powdered milk from a container.

While crews rarely suffer in pirate attacks, many have been left stranded by their own employers in recent months.

Mr Ake Selander, assistant general secretary of the International Transport Workers Federation (ITF), believes that this trend shows no signs of abating. Last year, he noted 12 such cases.

"It was mainly Greek flags, but recently there have been a number of Spanish and Indian flag vessels," he says. The ITF and the International Shipping Federation, which represents employers – both are London based – are keen to update international regulations on repatriation of abandoned crews.

Last Friday, Mr Selander said he had just had a cable from the crews of two Panamanian flag ships abandoned near Bahrain after the owner had run short of funds.

In Greece, the crew of the Nicolaos Ch. have claimed in court that Williams and Glyn's, the UK bank, should be responsible for unpaid wages of £155,000 after the owner, Mr Ionnis Chrisospathis, ran into difficulties.

Two ships owned by Uiterwyk Lines, a U.S. company, which has filed for Chapter 11 bankruptcy, are stranded in Monrovia, the capital of Liberia. The crews of the Victoria U and the Johanna U, both under the Liberian flag, will have to wait until the vessels or their cargoes are sold. Uiterwyk is meanwhile trying to sort out its financial affairs with bankers and creditors.

Conoco well 'encouraging'

CONOCO has claimed "encouraging" initial results from an onshore exploration well drilled in Surrey, south of London.

The well, at Godley Bridge, is one of several oil exploration sites in the Wealdon Basin, covering most of Surrey, Sussex and parts of Kent and Hampshire.

Conoco is operating there on behalf of Tricentrol and Charterhouse Oil and Gas. Tricentrol recently described the area as one of the most promising on shore in the UK.

Conoco said the Godley Bridge well was drilled to a depth of 8,473 feet. Its commercial significance would now be evaluated.

NEW HOPES FOR WORLD ECONOMIC RECOVERY

Sterling fall 'may help industry'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE RECENT fall in the value of sterling should halt the decline of UK manufacturing industry and help to generate a modest recovery in output, the London Business School says in its latest forecast, published today.

The school's Centre for Economic Forecasting says that the fall in world interest rates and the easing of U.S. monetary policies will promote a recovery of the world economy.

It says: "It could be as much as six months before we see a reaction to these changes in the real economy, but the prospects for world recovery in 1983, especially in the second half of the year, now seem assured."

The centre expects world output to rise by 2.3 per cent in the course of this year, and UK output to be 1.8 per cent above the level for 1982.

It says: "Although the latest industrial news in the UK is bad, with stocks being run down and output falling, conditions for revival are in place."

The recovery of profits, already evident in the last three months of 1982, is expected to be sustained this year by the recent fall in the exchange rate. The running down of stocks during the last part of last year has also improved the financial position of companies.

The forecast assumes that the increase in demand this year, resulting from a slowing down of the pace at which stocks are run down, will be sustained by a moderately expansionary budget. This in turn should encourage businesses not to go on running down stocks at the recent rate.

Although the recovery is expected to be led by a turnround in stocks, the LBS says it will be underpinned by a growth in private consumption.

It expects consumers' spending to be held at the buoyant level of the end of last year, which was 3 per cent above the level last summer. It then expects further growth in the second half of this year, following a mildly expansionary budget.

Although a high proportion of this extra demand is expected to be met from increased imports, which are forecast to rise by 6 per cent, the centre forecasts the current account of the balance of payments to remain in surplus.

The centre expects the recovery of output this year will be accompanied by falling inflation.

In spite of the effect which the depreciation of the pound will have in raising import costs, it has revised its inflating forecast downwards since the last prediction in November.

Last year, it says, the inflation rate was almost three percentage points below the Treasury's budget forecast. Partly as a result, wage settlements at the start of the current wage round had been moderate. This, with the continued shedding of labour, would tend to depress price rises in the first half of the year.

However, in later years, the centre is expecting inflation to accelerate as the recovery gathers pace and as the effects of the depreciation feed into the economy. It forecasts a gradual increase in the annual inflation rate from 7 per cent in 1984 to 7.8 per cent in 1986.

Unlike the forecasts of the National Institute of Social and Economic Research, which assume unchanged policies, the business school assumed a number of mildly expansionary measures within the general context of the present Goverment's economic strategy.

Specifically, it assumed that the standard rate of income tax would be cut by 1p in March, that personal income tax allowances would be raised by 12 per cent and that indirect taxes would be raised by only half the amount required to keep pace with inflation.

This would amount to a total tax give-away of £1.5bn in the March budget and would result in a public borrowing requirement of £1.5bn. By comparison, the Treasury forecast last November implied that there would be room for tax cuts of about £2.5bn, if the borrowing requirement was to be £9bn.

In future years, the business school assumed that a re-elected Conservative Government would adopt a rather more relaxed fiscal policy, which would result in a progressive reduction of the standard rate of income tax from the present 30p in the pound, to 25p by 1986–87. It was also assumed that the employers' National Insurance surcharge would be abolished in 1985–86.

As a result of these measures, the Public Sector Borrowing Requirement is forecast to decline gradually from £9bn in 1983–84 to £5.4bn in 1986–87. In the absence of these tax cuts, the borrowing requirement would have fallen to only £1bn by 1986–87, the business school believes.

The relaxation of fiscal policy, together with the expected recovery of business activity, is expected to increase rates in 1984, and short-term rates are expected to remain in the range of 9 per cent to 11 per cent for the four-year period of the forecast.

The business school is expecting a substantial undershoot of the public spending target in the current year, by about £1bn compared with the Government's revised planning total of £113.6bn, excluding sales of assets. However, in later years, it expects public spending to exceed the planning totals announced in the recent White Paper.

By 1985–86, it expects the total to be £9bn more than the Government is currently planning. Some of the other features of the forecast are:

LONDON BUSINESS SCHOOL'S LATEST FORECAST FOR THE UK ECONOMY

Exchange rates: The real exchange rate is now thought to be close to its sustainable long-run equilibrium level. Only a small decline in the value of the pound is predicted this year.

Investment: After a "surprisingly strong" investment performance in the third quarter of 1982, investment is expected to fall back in the final quarter. However, in 1983, business investment is expected to go on rising as confidence improves.

Output: The business school says that the rise in output forecast for 1983 is small, compared with those in other recoveries, and this "reflects our view that a substantial proportion of the fall in manufacturing output, relative to GDP, that has taken place since 1979 is permanent."

Jobs: After an estimated fall of 3 per cent in 1982, employment is forecast to stabilise, even though the average employment in manufacturing this year will be 3½ per cent below the average for 1982. Since the working-age population is increasing, unemployment is forecast to rise further this year and next, but to stabilise at about 3.1m (excluding school leavers) by 1985.

Company finances: The sharp increase in profits in the second quarter of last year is expected to have continued in the fourth quarter, though at a slower rate.

The two futures under Labour

THE London Business School makes two other forecasts, one "successful," one "unsuccessful," based on the Labour Party's programme for a planned economy.

It is assumed that exchange controls would have only a short-term effect on the financial markets as movements of foreign capital have become "almost uncontrollable."

In the "successful" case inflationary pressures generated by more relaxed fiscal and monetary policies would not cause a wages explosion thanks to pay agreements with unions.

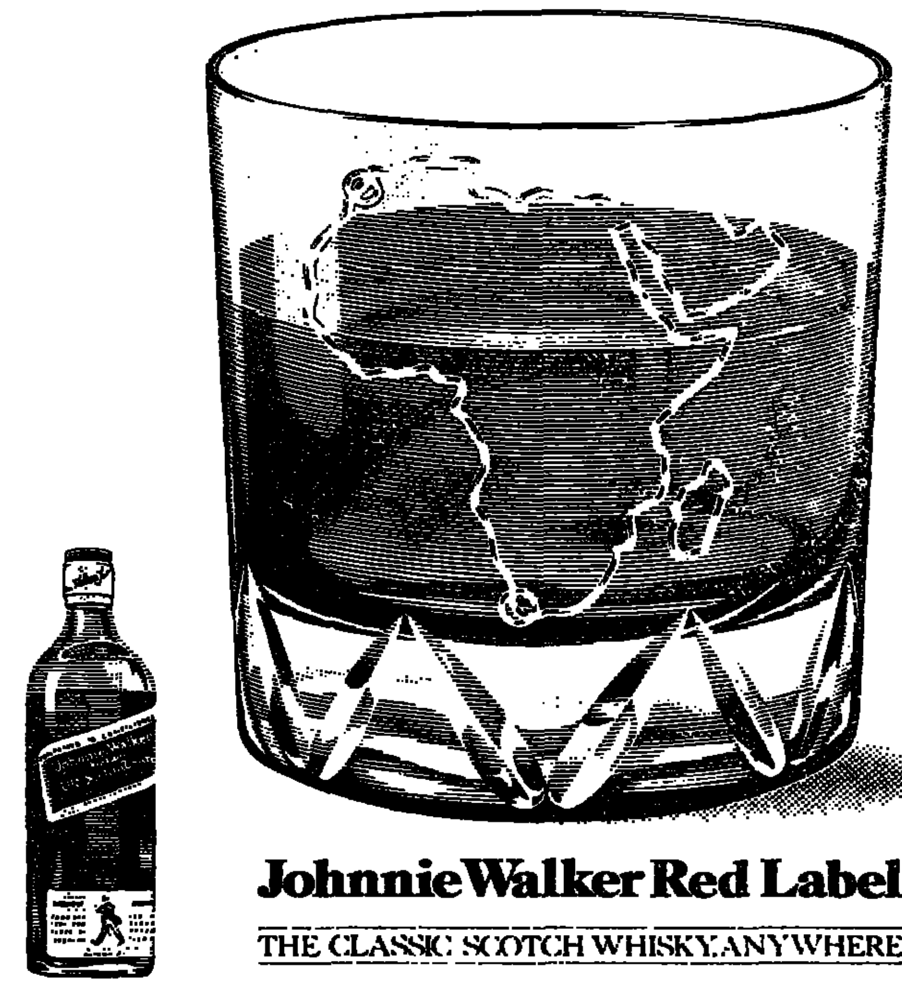
Although inflation would reach 12 per cent by 1986, financial markets would be influenced by the relatively moderate wage settlements. Sterling would, therefore, depreciate little.

By 1986 the public sector borrowing requirement is assumed to have nearly doubled at £15bn

If things went wrong under Labour, the LBS assumes foreign exchange markets would react initially with a five per cent depreciation of sterling. As the effect of exchange controls wears off within about a year, sterling would slide by a further 15 per cent.

Interest rates would rocket, pay policies would fail to hold the pressure for increased wages and other countries would retaliate against import controls.

Economic Outlook, Volume 7 Number 5, February 1983, London Business School Centre for Economic Forecasting, subscription UK £75, Europe $160, from Subscription Department, Gower Publishing, Gower House, Croft Road, Aldershot, Hampshire, Gu11 3HR.



Conran adopts Habitat design to greet customers at Heal's

BY DAVID CHURCHILL AND LUCIA VAN DER POST

SIR TERENCE CONRAN'S agreed £4.8m takeover of the Heal and Son up-market furniture stores is further clear evidence that he has become one of the key pace-setters for retail change in the early 1980s.

Only 18 months ago Sir Terence brought his Habitat chain to the London Stock Market at an offer price of 110p. The shares are now more than double that figure.

Moreover, within weeks of his flotation, Sir Terence had put together an ambitious takeover deal for the much larger Mothercare chain. Sir Terence, as chairman of the Hepworth group, also found time to develop a successful womenswear chain called Next.

Now Heal's has fallen prey to the seemingly magic touch that has marked Sir Terence's recent retail ventures – a move of which the City generally approved.

For its £4.8m, Habitat is getting Heal's flagship store in Tottenham Court Road, London and a smaller store in Guildford, Surrey. More importantly, Habitat is gaining access to the up-market end of the furnishings business that the Habitat chain of stores cannot reach.

Moreover, Mr John Richards, a senior retail analysts with stockbrokers Capel-Cure Myers, points out there is a "lucrative market in the over-30s age group which many retailers want to tap if they can find the right retailing formula." A chain of up-market furnishing stores in major cities could reach that market, he concludes.

Mr Richards and other analysts do not see the Heal's acquisition as being of dramatic significance to the fortunes of Habitat Mothercare.

The interim financial results due out shortly will show how successful Sir Terence has been in restoring Mothercare's fortunes without harming Habitat's profits.

For the 12 months ending June 27, 1982, Habitat Mothercare had £157.2m sales and a pre-tax profit of £10m. This period covered 12 months for Habitat but only five months of Mothercare's figures.

The Heal's acquisition, however, is seen in the City as being a useful short-term acquisition with long-term possibilities.

First, it allows Habitat to relocate its own, cramped, Tottenham Court Road store in much larger premises within the Heal's building.

Second, it gives Habitat Mothercare the option of using some of the unused space within the Heal's building for new offices.

Third, it gives Habitat Mothercare a new retail option – upmarket, well designed furnishings – as quickly as resources and finances permit.

"It is by no means a dramatic more for Conran," says Mr Richards, "but in 10 years' time it could certainly be seen as a significant step."

Sir Terence himself admits that, while he is proud of what Habitat does, what it does goes only so far. Where do the young couple, who have furnished their first flat with Habitat's inexpensive, simple, sensible products, go next?

Where do they go when they become more established, move to a house and want a look that is modern, expressive of a certain middle-class meritocratic lifestyle, more sophisticated and more expensive?

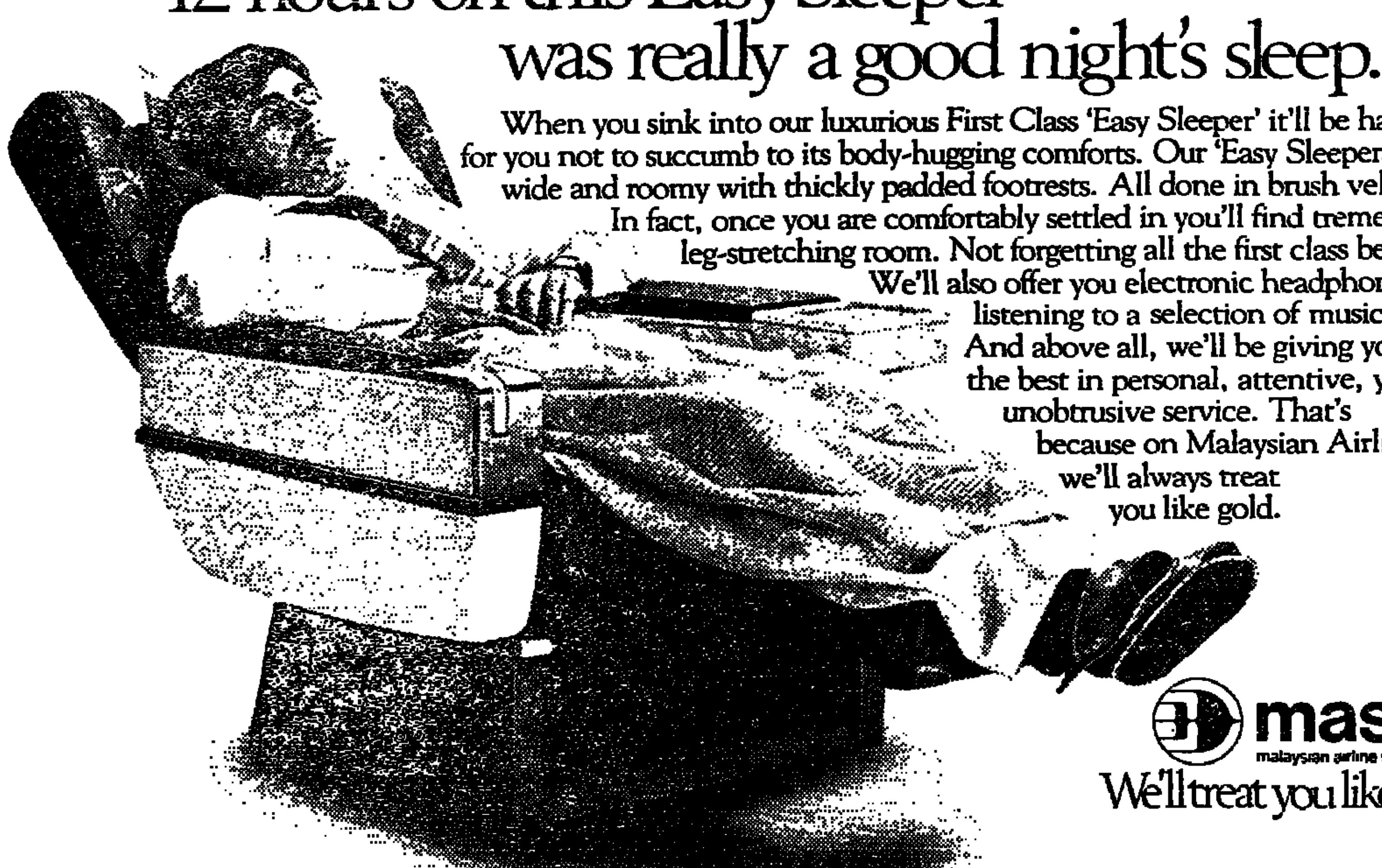
At the moment there is almost nowhere. Heal's in recent years has largely priced itself out of that particular marketplace.

Sir Terence says: "Many of the pieces of furniture on offer there can only be destined for the sales, so expensive are they."

Sir Terence sees Heal's as a perfect complement to Habitat, certainly no rival. He has long been an admirer of Heal's and its historical role on the British design scene – "many of Ambrose Heal's original designs still look wonderful today" – and has watched with sadness its recent struggles to regenerate itself

The design philosphy behind Habitat will dectate development at Heal's. One ofSir Terence's great regrets is that the press persistently refers to him as "trendy" when his own stated aims are infinitely more modest.

Somewhat plaintively, he reiterates that all he has ever wanted to do is "to sell well-designed furniture that was also well made, comfortable and at a price most people could afford." He always hoped to become the Marks & Spencer of the furnishing world, not the Miss Selfridge.



BUILDING AND CIVIL ENGINEERING

Glimmers of hope in workload survey

GLIMMERS of hope in the beleaguered UK construction industry are reinforced today, if somewhat tentatively, by news of higher order books and inquiries in the latest workload survey from the Federation of Civil Engineering Contractors.

Carried out prior to the publication of the recent Public Expenditure White Paper — which, according to industry observers, served merely to confuse the issue — the FCEC survey chooses its words carefully.

"Generally," says the FCEC, "it indicates less pessimism compared with the last survey," a sentiment matched by the state of trade inquiry published by the National Federation of Building Employers Trades at the end of January.

However, the civil engineers say that, in overall terms, order books have improved on their position in the October 1982 survey, both as compared with six and 12 months ago.

The trend is not consistent across the industry. The situation among large and small-to-medium sized firms (100 to 500 operatives) appears to have improved and small firms are generally holding their own, says the FCEC. However, medium to large firms (500 to 1,000 operatives) have not fared as well and "appear to be relatively worse off."

Ahead of the Budget, the industry seems unwilling to accept any signs of improvement without heavy qualification — perhaps remembering that there were similar hopes last year which were subsequently dashed.

For example, although invitations to tender have continued to increase, the FCEC notes that this rise has been offset "to some extent" by an increase in the number of tenderers.

Employment, it says, reflects the order position. But 86 per cent of the respondents from the medium-to-large firms now employ fewer operatives than a year ago. While the industry does continue to shed staff, says the survey, this appears to be at a lower rate compared with October of last year.

Another confidence indicator, capital investment—or divestment—is also in balance. In general terms, the survey says, there has been some stabilisation in the position of plant holdings. "Firms have, however, reported continued under-utilisation of plant and larger firms continue to run down their holdings," it says.

The FCEC concludes by saying that future projections for the industry indicate that its members are hopeful that, in its forthcoming Budget, the government will recognise the need for greater investment in public sector infrastructure as a basic source of non-inflationary growth to the economy as a whole.

WILLIAM COCHRANE

Export success

FIGURES FROM the Association of Consulting Engineers indicate that once again export earnings of members have increased.

From £487m in 1981 (itself an increase of 14 per cent upon the previous year), earnings rose to £565m in 1982.

But the Association's chairman, Mr Keith Jones, pointed out that this achievement could not be guaranteed year after year, and stressed the need for a firm home base to support the success of work abroad. He said a measure of government assistance is necessary if increasing international competition is to be met on equal terms.

Pre-fab range

● A range of buildings called "Newcon" has been launched by TERRAPIN which is claimed to provide a diverse range of both permanent and short-term accommodation in a variety of roof pitches, roof coverings and wall claddings. The buildings can be used for certain forms of domestic and leisure accommodation as well as industrial and commercial applications. Features include a high degree of insulation, and low maintenance finishes used throughout the range of buildings, which is said not to suffer from the stamp of uniformity commonly found in "system" building. The buildings are in standard spans of 7.2 and 9.6 metres by 3.06 metres. Flush ceilings are 2.4 metres above floor level. Details on 0908 74971.

Defective homes aid

"RIGHT-TO-BUY" home owners who found structural defects in their Airey homes after purchase are to be offered a choice of financial compensation under a government package which came into operation last week.

Mr John Stanley, the Housing Minister, said in a House of Commons written reply that those who bought their properties before September 7 last year would get a choice of cash aid.

They can apply to their local authority for a grant covering 90 per cent of repair costs, or sell the house to the authority at its present market value, plus a sum to cover the difference between that value and its value without defects.

About 25,000 Airey houses were built between 1946 and 1959 as part of industrialised house-building programmes. Two years ago they were found to have defects in their supporting columns. About 2,000 are owned privately.

Owners will have until September 7 1985 to exercise their option.

South east tops road spending

PEOPLE LIVING in East Anglia and South East England get the biggest share of cash for road building in England. The East Midlands falls at the bottom of the spending league per head of population, according to a report from the British Road Federation.

In cash terms, the densely populated South East gets more than three times as much as any other region, although London fares less well. In 1981-82 spending on new roads in the capital amounted to only £8.70 per head of population compared with £17.40 for the rest of England.

Scotland received £40 per head and Wales £50.70.

Rural East Anglia comes top on a per capita basis with road spending totalling £28.29 for every person—although the area is near the bottom of the regional league in terms of total cash.

Road spending in 1979-80, in the North was £38.5m, Yorkshire and Humberside £54.4m, East Midlands £27.3m, East Anglia £37.2m, South East £237.5m, South-West £34.5m, West Midlands £53.4m, and North-West £76.7m.

Building still labour intensive

THE EXTENT to which construction remains a heavily labour intensive industry with a low degree of mechanisation, even in the richer industrialised countries, is underlined in a startling series of statistics to be published shortly by Plantecon (Overseas) Research.

Plantecon, which claims to be the only market research body exclusively for the construction equipment industries, has just completed an exhaustive study of construction output and use of construction machinery in more than 100 countries.

Research

The study, which included research on the ground in more than 60 developing countries, estimates world value of construction output (excluding Comecon countries) of $1.281bn. Of this massive figure, expenditure on construction equipment accounted for only 4.7 per cent of total construction budgets.

Large slice

Housebuilding accounted for the largest slice of construction turnover ($318bn or 25 per cent) but for the lowest use of construction equipment which accounted for only 2.6 per cent of housing budgets in 1981, says Plantecon.

The study also included open cast mining and mechanical and process engineering, now included in the activities of many of the large international contractors, within its construction output figures. Among the heaviest users of construction equipment were civil engineering projects such as roads, bridges and tunnels, as well as energy related projects and mining.

Plantecon estimates that by 1986 world construction output could have risen by 23 per cent to $1.580bn (at 1981 prices). To arrive at this figure the study group took account of published development plans but in the case of some OPEC countries they have reduced forecast figures by up to 25 per cent in recognition of financial pressures resulting from subdued energy prices.

Low level

Mr W. J. Richter, managing director of Plantecon, says that a 23 per cent increase in annual world construction output between 1981 and 1986 would still be the lowest level of growth over any five year period since the Second World War.

Plantecon, however, forecasts that use of construction equipment expressed as a proportion of total output will rise only nominally from 4.7 per cent to 4.9 per cent. Expressed more simply the study estimates that in 1981 6.8 machines were deployed for every $1m worth of output: by 1986 this might rise to only 7.2 machines.

It says that growth will be impeded by the fact that in recent times job closures and cuts have led to many pieces of equipment standing idle.

The study expects Western Europe to see the greatest growth in construction output—reflecting repair, maintenance and replacement work. Between 1981 and 1986 construction output in Western Europe could rise by as much as 30 per cent, forecasts Plantecon. On the same basis output in Japan and the Middle East could rise by 25.4 per cent and USA/Canada by 24.9 per cent.

ANDREW TAYLOR

More of the black stuff

TARMAC said this week that production of road surfacing materials in Britain had risen by 20 per cent in 1982. But both the company and the relevant trade association, British Aggregate Construction Materials Industries (BACMI) cautioned that last year's improvement was neither significant nor the start of a trend.

BACMI commented that the figure is calculated "on a very low base" and that the industry had been "a dismal market over the past few years." It said that production this year is likely to sustain 1982's improved level, but that it is not expected to increase further.

Black top or "black stuff," the preponderant road surfacing materials, consists of 90 per cent "home grown" rock or gravel, the binding agents being derived from imported raw materials such as bitumen, Trinidad Lake asphalt, and crude oil which is distilled in the UK. Department of Trade figures suggest that imports of these materials have shown a modest increase.

BACMI also dismissed as a red herring—and an optimistic one, at that—Department of Transport figures which might be taken to suggest that levels of basic road construction and repair are markedly up.

In 1981/82, according to the Department, £446m was spent on new roads, including the purchase of new land. For 1982/83 the estimated figure is £553m, "an increase of 10 per cent in real terms." Similarly, road repairs accounted for £179m in 1981/82 while estimated expenditure for 1982/1983 is quoted as £209m—an increase of 8 per cent in real terms.

BACMI points out that the total UK road construction and maintenance budget for 1982/83 is in the order of £2½bn. It also reckons that the government, in its recent Public Expenditure White Paper, was "a little optimistic" in expecting local authorities to spend 60 per cent more in the sector in the current year.

● Substantial opportunities exist in Saudi Arabia for selling construction products, medical equipment and services to over 100 new hospital projects, according to a market research report by CUNNINGTON AND ASSOCIATES. The report forecasts that the number of beds will double by 1987 from the 21,000 available in 1983. It also gives full details of the parties involved and their contact data.

Copies of the report are available at a cost of £450 from Cunnington and Associates, 150, Regent Street, London W1R 5FA.

● SUN ALLIANCE INSURANCE GROUP has published a contractors guide to safe working practices and loss prevention. Called "Construction sites at risk," the booklet covers site safety and security, knowledge of the law and fire on construction sites.

CONTRACTS

£12m work for Tarmac

Contracts together worth about £12m have been awarded to TARMAC CONSTRUCTION. Tarmac National Construction has a £4.2m contract to extend a factory at Bridgend, Mid-Glamorgan, for sweet manufacturers Smith Kendon. Work on the single-storey building, two-storey offices and car park, has started and is scheduled for completion in a year. Cubitts—part of Tarmac Regional Construction—has three contracts in the north-west, together worth about £1.8m, for repairing and refurbishing homes at Blackburn, for Portico Housing Association; Bacup, for Rossendale Borough Council; and Lancaster, for Lancaster City Council. Two similar contracts, together worth over £450,000, have been awarded to Tarmac Regional Construction's contract housing organisation for work on homes at Derby, for Derby City Council, and Oakthorpe, Leicestershire, for North-West Leicestershire District Council. Other contracts include a single-storey workshop for SMT Sales and Service Co, Edinburgh, worth £857,000.

★

Derby construction firm, FORD AND WESTON is to build a £4m district shopping centre and warehouse for the Greater Nottingham Co-operative Society, in Swiney Way, Chilwell, near Nottingham. Work, which has started, is due for completion next September. The centre is being built on a 10-acre site, formerly occupied by a Ministry of Defence warehouse. It comprises a 30,000 sq ft super-store, with parking for 400 cars, and an adjoining 78,000 sq ft warehouse. Six shops for leasing to local businessmen are part of the scheme. Ford and Weston is also building a 40,000 sq ft retail store for W. H. Smith Do-It-All in Rawdykes Road, Leicester.

In the London area MOWLEM has won two civil engineering contracts together worth £3.6m. In Islington Mowlem is to build the sub-structure for William and Glyn's Bank, Duncan Street. The contract, valued at just under £2.5m, is being undertaken for Trollope and Colls Management. Work has started for completion in September. At Heathrow Airport Mowlem has won a £1.1m contract for part of the British Airport's new Terminal 4. The contract package is the first phase of a 45 metres wide concrete paving strip and services around the building forming an airside road and aircraft equipment areas. Work has started for completion by April 1984 and is being carried out for Taylor Woodrow Construction under a management contract for the British Airports Authority.

● Acting on behalf of engineers Peirson and Co. Nigel Moor and Associates have sold the riverside site Felstead Wharf to Wates Built Homes. Wates has obtained planning permission to build 28 flats and houses and construction starts soon.

More efficient space heaters developed

AN OVERHEAD industrial gas heater, intended for factories, warehouses, schools, churches, and similar large open premises, has been introduced by EMC Engineering Company, Ipswich.

Called the Sierra 13, it uses infra-red radiant heating, and is claimed to be the most cost efficient on the market.

The unit has a shallow reflector which throws a "canopy" of radiant heat into the working area from a conical perforated stainless steel emitter and aerated burner. Fuel is either natural or propane gas.

The system has two controls. Each heater has a thermostat which maintains the pre-set air temperature in its area.

An electronic timer can be set to control all the heaters in a building to respond to unusually high or low temperature changes, and variables such as the length of the working day.

Cost savings associated with this system can be dramatic, says the maker. Where the system replaces unplanned heating methods — typically involving the use of several fuels — bills can be cut by around 80 per cent, and, in bad cases, even more, it is claimed.

The units are suspended high over the area to be heated, spaced according to the building's insulation and number of air changes. Radiant heat from the Sierra 13 is absorbed by the floor, work surfaces, machines, etc, and this produces convected heat to maintain a warm environment. The heaters are stated to be particularly useful in premises subject to high air extraction rates or frequent air changes.

The Sierra 13 does not use a pilot burner, but is electronically ignited, and is said to have been well received by insurance companies because of its safety features.

The heaters are suspended on the gas pipe. Each provides temperature controlled conditions for about 1,000 sq ft when at the optimum operating height of 14 feet above floor level. Maintenance is stated to be minimal and easy.

Average running cost per heater is 14p/hour, assuming natural gas at 31p a therm.

Details on 0473 625151.

CONTRACTS AND TENDERS

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE
(ALGERIAN POPULAR DEMOCRATIC REPUBLIC)

MINISTERE DE L'ENERGIE ET DES INDUSTRIES PETROCHIMIQUES
(MINISTRY FOR ENERGY AND PETROCHEMICAL INDUSTRIES)

ENTREPRISE NATIONALE DE FORAGE
(NATIONAL OIL EXPLORATION COMPANY)
"ENAFOR"

NOTICE OF INTERNATIONAL CALL FOR TENDERS No. IN 83.01

"ENAFOR" is launching an International Call for Tenders for the supply of the following oil drilling equipment:

ITEM I — DRILL-PIPES AND DRILL COLLARS
ITEM II — STABILIZERS AND REAMERS
ITEM III — CASING HEAD COMPONENTS
ITEM IV — HANDLING AND ROTARY DRILLING EQUIPMENT

This Call for Tenders is intended for Manufacturing Companies only and excludes amalgamations, representatives of companies and any other intermediaries, in compliance with the provisions of Law No. 78.02 of 11 February 1978 relating to State Monopoly on Foreign Trade.

Interested suppliers may obtain the Specifications from ENAFOR—DEPARTEMENT ENGINEERING ET APPROVISIONNEMENTS (ENGINEERING AND SUPPLIES DEPARTMENT) — 1, Place BIR HAKEIM — El-Biar (Algiers), with effect from the date on which this notice is published.

Tenders, of which six copies should be prepared, must be sent by registered mail in a sealed double envelope, the outer envelope being completely anonymous and bearing no captions, logo or seal of the tenderer, nor any inscription which might indicate the origin thereof, stating simply "APPEL D'OFFRES INTERNATIONAL No. IN 83.01 — CONFIDENTIEL — A NE PAS OUVRIR" (INTERNATIONAL CALL FOR TENDERS No. IN 83.01 — CONFIDENTIAL — DO NOT OPEN), for the attention of Monsieur le Chef du Departement Engineering & Approvisionnements (Head of Engineering and Supplies Department), to arrive by 16 APRIL 1983 at the very latest. Any tender arriving after this date will be rejected.

The selection will be made within 120 days from the closing date of this Call for Tenders.

FROM THE CHAIRMANSHIP OF THE CENTRAL COMMISSION FOR PURCHASES, SALES AND TENDERS OF THE TURKISH STATE RAILWAYS

We had previously announced that our Tender due on 12th January 1983 at 15.00 hours for the construction of a slipway with 500 tons lifting capacity for our Iskenderun port had been postponed to 14th February 1983 at 15.00 hours and that only bidders from member countries of the World Bank and from Switzerland may participate in this tender. Kindly take note that this time the mentioned tender has been postponed to Tuesday 8th March 1983, at 15.00 hours due to necessity concerned.

The Department of Provincial, District and Rural Electrification of - ELECTROPERU S.A., PERU

have awarded a contract for the design and supply of equipment for small and medium sized hydro electric stations, to -

BALFOUR BEATTY ENGINEERING LTD.

United Kingdom manufacturers are invited to apply for the pre-qualification documents for any or all of the following categories of equipment:
- Water Turbines inclusive of Generators
- Transformers
- 4.16 kV Switchgear

Applications in writing to: Manager of Procurement, Balfour Beatty Engineering Limited, Marlowe House, Sidcup, Kent DA15 7AU.
Closing date: 7 March 1983.

SEA PORTS CORPORATION SUDAN
CONTRACT NO/KM/8/83

SUPPLY OF 2 CONTAINER HANDLING FORKLIFT TRUCKS
Capacity 35 tons and 25 tons

The Chairman, Sea Ports Corporation — Sudan Invites Tenderers to quote for the supply of the above
Payment will be in foreign currency from IDA credit No: 781-SU
Closing date is 12 noon 10.3.83 at Khartoum
Specification can be obtained from:
SUDAN GOVERNMENT PURCHASING AGENT
3-5, Cleveland Row
St. James's, London SW1A 1DD
Telephone: 01-839 8080
Telex: 917093 SGPAUK G
at a cost of £5 to be paid by cheque or Postal Order only
Signed
SEA PORTS CORPORATION

CONTRACTS & TENDERS ADVERTISING
Appears Every Monday
The rate is £30.00 per single column centimetre

TRAVEL

TOKYO, OSAKA, SEOUL, TEIPEL & FAR EAST
Wide choice of discount flights
Brochure:
JAPAN SERVICES TRAVEL
01-437 5703

ART GALLERIES

AGNEW GALLERY, 43, Old Bond St., W1. 01-629 6176. 110th ANNUAL WATER-COLOUR EXHIBITION. Until 25th Feb. Mon.-Fri. 9.30-5.30; Thurs. until 7.

FIELDBORNE, 63, Queens Grove, NW8. 01-586 3600. LARGE LANDSCAPES & TOWNSCAPES. Lr. gallery Scottie Wilson.

JOAN EARDLEY at BROWSE & DARBY, 19, Cork St., W1. 01-734 7984.

LEFEVRE GALLERY, 30, Bruton St., W1. 01-493 1572/3. CONTEMPORARY PAINTINGS ON VIEW. Mon.-Fri. 10-5, and Sats. 10.00-12.45.

OFFICIAL NOTICES

OFFICIAL NOTICE
LONDON METAL EXCHANGE WARRANT

Please be advised that Warrant No. 280153 —10 Bars Silver, Brand: BOR—Weight: 9999.83 Troy Ounces, stored in Rotterdam, has been replaced and the above Warrant should be considered null and void.
C. STEINWEG, N.V.

COMPANY NOTICES

GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the Corporation's Declaration of a Dividend of $0.60 (gross) per share of the Common Stock of the Corporation, payable on the 10th March, 1983, there will become due in respect of Bearer Depositary Receipts a gross distribution of 3 cents per unit.

The Depositary will give further notice of the Sterling Equivalent of the net distribution per unit payable on and after the 15th March, 1983.

All claims must be accompanied by a completed Claim Form and USA Tax Declaration obtainable from the Depositary. Claimants other than UK Banks and Members of The Stock Exchange must lodge their Bearer Depositary Receipts for marking. Postal claims cannot be accepted.

The Corporation's Final Report for 1982 will be available upon application to the Depositary named below.

Barclays Bank PLC
Securities Services Department
54 Lombard Street
London EC3P 3AH

J. A. DEVENISH plc

NOTICE IS HEREBY GIVEN that the Transfer Books of the 4½% Redeemable Debenture Stock 1981-86 and the 5½% Cumulative Preference Stock will be closed from 17th to 30th March 1983 (both dates inclusive) for the preparation of the warrants for Interest and Dividend payable on the 31st March, 1983.

J. A. LUTHWAITE, Secretary
By Order of the Board
Trinity House, 15, Trinity Street, Weymouth.
1st February, 1983.

NOTICE TO HOLDERS OF SHARES IN NIPPON ELECTRIC CO. LTD.

Copies of the semi-annual Report for the six months ended 30th September, 1982 of Nippon Electric Co. Ltd. are now available, upon application at the office of Vickers da Costa Ltd., Regis House, King William Street, London EC4R 9AR.
21st February, 1983.

CLUBS

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St. 01-734 0557.

THE GASLIGHT OF ST. JAMES'S. London's most exciting businessman's night time retreat. No membership needed. 2 bars, dozens of dancable companions, fabulous Cabaret Acts. Happy hour 8-9 pm. If required, superb three-course dinner, only £9.75, plus service and tax. Entrance fee £5.75 (£5 refunded to diners ordering before 9 pm). Mon.-Fri. 8 pm-2 am. Sat. 9 pm-2 am. 4, Duke of York Street, SW1. Tel: 01-930 1648/4950.

RAMON'S NIGHTCLUB-REST., 42, Dean Street, W1. Where today's businessmen can relax, and enjoy an exciting evening. Three fabulous floorshows nightly, dancing and discreet hostesses. 9 pm-3 am. Tel: 01-437 9455.

FINANCIAL TIMES
PUBLISHED IN LONDON & FRANKFURT

Head Office: The Financial Times Limited, Bracken House, 10 Cannon Street, London EC4P 4BY. Telex: 8954871. Telephone: 01-248 8000. Frankfurt Office: The Financial Times (Europe) Ltd., Guiollettstr. 54, D-6000 Frankfurt-am-Main 1, West Germany. Telex: 416193.

INTERNATIONAL & BRITISH EDITORIAL & ADVERTISEMENT OFFICES

[illegible]

For Share Index and Business News Summary, Telephone 246 8026 (number, preceded by the appropriate area code valid for London, Birmingham, Liverpool and Manchester).

All advertising is subject to the publisher's current terms and conditions, copies of which are available on request.

TECHNOLOGY

EDITED BY ALAN CANE

ANTON WEBER OF BASF TALKS ABOUT NEW PLASTICS

Pioneering gives way to materials systems

BY ALAN CANE

THE REVOLUTION in new materials—the development of sophisticated plastics which can be used to augment or replace other materials—has been taking place against a background of instability in oil prices which has served to obscure much significant progress.

Window frames made from plastic rather than wood or metal are now commonplace (50 per cent of new West German frames installed are of plastic material), automobile engine blocks made of plastics composite and able to withstand high temperatures are a more dramatic example of the chemist's art.

"Yet all this we can now do," says Dr Anton Weber, market development manager, plastics, for BASF, the massive West German chemicals-to-computers industrial group.

An unashamed prophet of the new plastics, Dr Weber told a conference last year: "The extremely rapid penetration of plastics into all fields of technology can be explained in the light of the interplay of three deciding factors; properties, processing and price."

Versatile

The property which makes plastics so versatile—an extremely high performance to weight ratio is well established and indeed Dr Weber says he expects little new in terms of materials: "The pioneering days in plastics development are over and the invention of fundamentally new plastics is likely to be the exception rather than the rule."

"We will make these plastics tougher and stronger by a variety of techniques—by using new varieties of well known plastics, by blending existing plastics and by filling plastics with other materials."

Composite materials produced by these techniques have made it possible to use plastics in the automobile industry for many components from wheel trims to entire body panels.

Dr Weber gave other examples: "There are photopolymers for printing plates and electronic circuits and conductive polyacetylenes which have given further impetus and opened up new vistas in electronics; extremely strong fibres such as carbon fibres have been developed which can be embedded in plastics to yield structures which are strong but light."

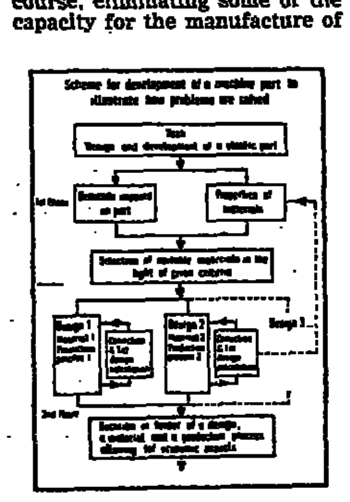
The thrust of Dr Weber's argument is that the demands of economic production today means the engineer has to think in terms of materials systems: "A classical example of this was given by high-impact polystyrene which was the first of a series of elastomer-modified plastics. As a consequence of the deeper knowledge that has been gained on the behaviour of rubber and polystyrene, other products have been developed with higher and higher impact strength."

"Today, properties such as high resistance to environmental stress cracking and a clarity approaching that of crystal can be obtained by molecular engineering."

Dr Weber distinguished a number of basic changes in the structure of the plastics industry. "The big, standard plastics—low density polyethylene and polystyrene and so on—are necessary for our way of life and for our technology, but after the two oil crises the rate of consumption of these plastics has declined and the producers have had to re-think their strategies.

"BASF quickly corrected its course, eliminating some of the capacity for the manufacture of standard products, while developing important and highly sophisticated plastics for the automotive and electrotechnical industries."

It is in these "intelligent" materials that Dr Weber sees the best chances in the years ahead.



Algorithm for the development of a part using BASF's systems approach

Relationships

He sees new relationships developing between, for example, the manufacturers and the universities:

"Responsibility for fundamental research in high polymers is split between the raw materials manufactures and the universities and scientific institutes. University institutes and research centres are participating more in research on the mechanical properties of plastics and the design data that can be derived from them.

"In view of this interplay, the raw materials industry considers that its main task is to make avaliable for industrial application new and further developed products in an effort to exhaust the innovation potential inherent in macromolecules."

Dr Weber pointed to new depths of collaboration between materials manufacturers and users in the development of new uses for the new plastics: "A shift in emphasis in the relationships between raw materials manufacturers and consumers has occurred and is already throwing light on future distribution of tasks. Many of our customers and the final consumers are themselves large and fairly large concerns with their own, efficient development departments. Consequently, a subsidiary task for any effective applications services department would be to give assistance in solving problems for which the converter, final consumer or machinery manufacturer does not have sufficient means to solve himself."

What are the important plastics for the future? Dr Weber pointed to thermoplastics reinforced with long glass fibres, carbon and aramid, which close the gap between injection and compression moulding techniques, thermoplastics reinforced with sawdust which are suitable for car interior trim and plastics with high resistance to heat, such as polysulphones, and polyethersulphones.

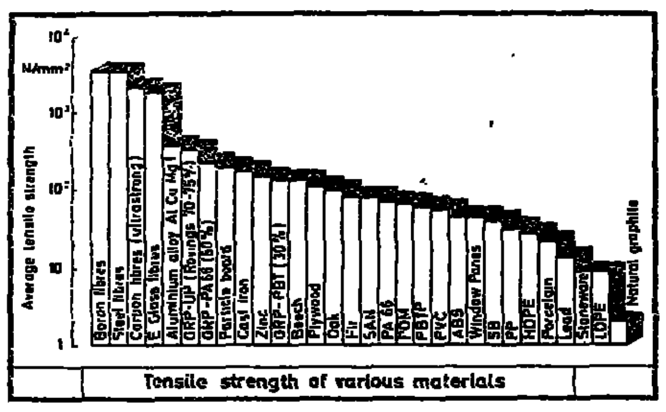
"In the future, greater significance will be attached to flame retardance, higher resistance to ageing, greater resistance to high temperatures and less sweating."

Dr Weber warned that manufacturers would be tested by environmental protection and industrial health regulations.

"There is no doubt that in the next few years, extremely great importance will be attached to determining the physico-chemical fine structure of plastics, a field for which special analytical methods will be required."

Dr Weber went on: "Raw materials manufacturers consider themselves to be active partners in promoting developments in the plastics industry and in branches of industry in which plastics are used. They can draw on specialist experience and specialist knowledge on the tremendous scope offered by plastics and they have the necessary know-how and the equipment."

It means, Dr Weber argued, that users of the new materials could to some extent dispense with costly research and development facilities, using instead the expertise and resources of the raw materials manufacturers: "The raw materials manufacturers thus have the opportunity of reliably guiding their plastics into fields of application with good prospects."



Dr Anton Weber of BASF, above; a spectrum of the tensile strengths of various materials, below. Carbon fibre is third in the list

AUTOMATED MANUFACTURE

How Stewart-Warner saved £0.5m in 1 year

BY GEOFFREY CHARLISH

BURROUGHS MACHINES has revealed the first installation of its integrated manufacturing computer system called TMS, at the Tynemouth plant of Stewart-Warner, the U.S.-based pneumatic tool and pump manufacturer.

The acronym is somewhat assertive — it stands for "The Manufacturing System"— because the company claims to have embraced "all the elements of financial and production control on a single data base."

Be that as it may, the system, which is running on a Burroughs B1900 machine, has already saved Stewart-Warner £0.5m in the first year—at a time when the recession, particularly in the building and civil engineering industry, has reduced output to a fraction of the available capacity. The machine shop must be one of the largest in this high unemployment area.

The company makes several hundred variants of its product which at first sight might lend themselves to high technology approaches such as robotics and flexible manufacturing systems.

But John Holmes, manufacturing director, makes a clear cut, if somewhat unexpected statement on the matter.

He maintains: "The economics of automating the entire plant were simply not viable. Besides, although some of our machine tools may be old, one or two even pre-war, when operated by skilled machinists they are totally reliable and can do quite as good a job as the modern systems. Certainly they are labour intensive, but there is no shortage of willing and able workers in this area."

So the company has restricted itself to rather more immediate problems such as keeping the machines fully occupied by making sure all the parts are in the right place at the right time.

In fact, TMS is able to integrate the planning and control of customer orders, production planning, work in progress, purchase orders, stock and product information, forecasting, product tracing, shop floor data control via terminals, plant maintenance, financial systems and distribution.

Not all of these modules are installed yet, but the system has already had marked benefits in a situation in which 13,000 different parts, 70 product lines and 700 models, with over 20,000 product structures, have to be organised efficiently.

As managing director F. J. Bradbury put it: "We are now aware of our costs and margins at all times."

MATERIALS SCIENCE

Converts heat to current

A NEW kind of material easy to form into complex shapes and so sensitive that it will provide a signal from the infra red heat emitted by the body is now becoming available for a host of applications from telephone handsets and underwater transducers to ultrasonic imaging.

Looking like the "silver" paper that used to encase cigarettes it is a metallised plastic film that converts one sort of energy into another, like heat into electric current and electric signals into sound waves. The film has high piezo-electric and pyroelectric activity.

In other words, if it is squeezed (the piezo part) or put under pressure it stimulates an electric charge which can be used to activate a circuit over which signals, or messages can be sent. Although it also has a high pyroelectric activity, it remains stable in ordinary temperature conditions. It will only be stimulated if the temperature is deliberately rapidly varied.

It is already proving of great value in ultrasonic imaging for medical applications, and other applications are for microphones, loudspeakers, intrusion detectors, position sensors, impact detectors and push-button switches.

Metal Box is a leader in the UK, if not in Europe, in offering the film for commercial and industrial purposes. It is being made in small quantities at its Wantage (Berks) research and development division.

Those who think they have an application for PVDF should write to: Mr R. Ring, section manager of new products, business development department, at Wantage (235 72929).

Machining

Gauging system for shop floor

THOMAS MERCER of St Albans has designed a new gauging system designed for machine shop use to measure eccentricity and run-out to assist the location of workpieces before metal cutting operations.

The magnetic base of the gauge is V-shaped so that it can be mounted on either a cylindrical or flat surface. The magnetic clamp can be switched on or off by a simple switch.

The angle arm attached to the base can simulate the action of a human arm with its ball and socket joint at the base, a hinge joint in the centre and a second ball and socket joint between the upper arm and the gauge unit.

Mercer claims that the system has considerable flexibility with all the joints linked hydraulically with a single knob for "fast accurate setting."

The company offers two base sizes, one for small lever gauges and the larger for up to 2¼ inch "S" Series dial gauges, but any combination may be specified.

A typical application for the new instrument would be for the truing of cylindrical workpieces in four chuck jaws prior to machining. In such a case the magnetic base would be clamped to the saddle and the gauge made to contact the part while it is still rotating.

The probe would then be moved along the length of the part by traversing the saddle. In this way the degree of eccentricity can be checked at every point, as well as the run-out along the length of the component.

Another application could be in the case of the setting up of a component on the table of a milling and boring machine to ensure that the eccentricity is parallel to the guideways.

More information is available from Thomas Mercer at Eywood Road, St. Albans, Herts. (0727 55313.)

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

A high-risk gamble on new technology

A provincial publishing group is putting a lot of faith in a computerised information network. Ian Hamilton Fazey reports

Richard Winfrey: finding salvation in carefully researched markets

WHEN A new national computer network with the cheapest access so far to Prestel, British Telecom's viewdata system, is launched today, it will open the latest chapter in the remarkable corporate emergence of the provincial newspaper group, East Midlands Allied Press (Emap).

Richard Winfrey, group managing director of Emap, says that the network, Micronet 800 —which is operated by the group's viewdata subsidiary, Telemap — is a high-risk gamble that will be terminated mercilessly if it does not show progress in only its first year. Few associated with the project, however, can see any real prospect of failure, though with Winfrey's track record of axeing corporate mistakes no one is taking his threat lightly.

Why Emap can afford to risk £0.5m on Micronet is a reflection of past, successful gambling on non-newspaper fields. The group —formed in 1947 by the merger of four East Midlands companies — now has two daily newspapers and 15 weeklies, but these are no longer its main profitmakers. Indeed, like all provincial papers, they are being squeezed between stagnant or falling revenue and unremitting pressure on costs. If the group had had to rely on them for growth, it would be looking pretty stunted by now.

The last full year's results, for 1981-82, tell the tale. Newspapers contributed only 31.5 per cent of the £47.7m turnover and, worse, made only 26.7 per cent of the group's £3.3m profits. Nearly 35 per cent of the turnover, but 60 per cent of the profits, came from a stable of magazines which Emap publishes nationally.

Yet only eight years ago Emap was returning £677,000 profit on only £9.7m of turnover, nearly all from newspapers. Winfrey himself, then 43, was desperately trying to awaken everyone to the need for change. He even started personally briefing all employees on the company's declining prospects. Just how novel this was at the time was illustrated when he explained his methods to an Industrial Society conference in 1975 on disclosure of information: he was criticised from the floor for telling the workers more than the shareholders and warned to expect Stock Exchange retribution.

His politely snorted retort — that disclosure was in the shareholders' interests and they would have to trust him to do his job — stiffened many managers present into opening the books to the unions for the first time as an aid to realistic negotiation.

Emap's growth since then has been spectacular, with turnover up nearly fivefold and peak profits—in 1980-81—sextupled. Behind the results a fundamental marketing stance is quite apparent: Emap's business is gathering and publishing information. The basic corporate skills and habits may well have been acquired by publishing newspapers, but in the 1970s and 1980s it is other types of information, each aimed at carefully researched, growing markets, that have proved the company's salvation.

Here, the titles of some of the magazines tell the story: Motor Cycle News, Angling Times, Garden News, Smash Hits (pop music), Classic Bike, Practical Fishkeeping, Trout Fisherman, Sporting Gun, Which Computer?, Which Word Processor?, Fleet News, Fleet Operators Handbook, Educational Computing, IBM User.

The first three were established or acquired more than 20 years ago to mop up spare production capacity and gave Emap the bedrock of its magazine publishing skills. Winfrey professionalised the group's magazine management in the 1970s with IPC-trained talent and the stable has been increasingly more successful since.

While Micronet is pointing the way to future profits, Winfrey will be wrestling with rather more pressing problems back at Emap's Peterborough HQ. These revolve round trying to make contract printing (again, used to mop up spare capacity) more profitable, dragging newspapers into new technology, shoring up their markets for survival and trying to increase efficiency wherever possible.

Starting a year ago, he persuaded all the unions to get round the table and talk to each other, as well as the management. He says: "The big problem is to keep people aware that the pressures on the business are not temporary. Advertisement revenue is not going to grow and neither are newspaper sales. It's not just the recession but other competition from radio, television and, soon, cable.

"Our workforce basically did not believe it. We have to convince people that survival depends on staff reduction plus new technology. We have called it our job security programme: if people are prepared to be flexible and change, we will give them security."

At some meetings, involving journalists, advertising salespeople, process workers and printers, "the fur flew." Visits to see new technology at the Wolverhampton Express and Star and in the Netherlands helped to allay many fears, though Winfrey believes that things may have to get worse before some people will be convinced that change is inevitable.

Staff reduction is now under way via non-recruitment and natural wastage; 10 printers' jobs have just been lost, six through early retirement or voluntary redundancy.

At the same time, current investment includes £4.5m of new newspaper press and handling equipment to exploit better what colour advertising markets there are and to speed up printing and despatch.

Contract printing remains tough, with competitive pricing keeping prices down. Indeed, some of the most difficult decisions are whether to print particular Emap titles outside or in-house.

Where Emap has failed badly in the past eight years is in the travel business. This went well for a while but started making losses as recession deepened. Moreover, the company was acutely hurt by a venture in Canada in incentive marketing. "It was the carrot end of sales management." Winfrey says. "You don't need carrots when the recession comes along and gives everyone a big stick."

Winfrey decided that Emap's subsidiary, Abbeygate Travel, had to go because it was neither big nor small enough to survive, falling between two stools and unable to attract good general management. Shareholders sighed with relief when the sale of Abbeygate to Hogg Robinson was announced in last November's interim statement. It had lost more than £200,000 in 1981-82.

They also had cause to smile, because that statement revealed half-term profits up slightly to £1.9m, despite a fall in interest receivable — the money is being used to finance new magazine launches, the costs of which are taken above the line in the year concerned—of £223,000.

Winfrey, however, remains cautious about matching last year's final profits, especially with the fall of sterling's adverse effect on newsprint prices, though he says the company is nevertheless on budget.

Perhaps the best news for investors though is Winfrey's own continuous dissatisfaction with Emap's performance. As he says: "We may be among the more successful publishers in Britain but that doesn't mean that we have necessarily got it right. I think we can do better. We have to."

Micronet—a domestic data base by phone

THE move by East Midlands Allied Press into business and computer publications has taken place in the last three years and the Micronet venture will, in effect, recycle information gathered by the division's computer magazines, which now number 11.

The key to the system—for which members pay £1 a week membership fee — is a cheap acoustic modem which they will buy for £49. The modem will connect by phone to Prestel at a quarter of the cost of current TV set converters. Prestel will provide the channel to run hundreds of programs through the subscriber's home computer, using ordinary household TV sets for display.

Not surprisingly, the venture is also being backed by British Telecom, which sees it as a means of getting Prestel into more homes, and the Department of Industry, whose undisclosed aid, says divisional managing director, David Arculus, runs into six figures.

Each subscriber will get 100 free programs and access to others which will have to be paid for via a debit on the phone bill. Arculus says that many of the programs are already published in Emap's computer magazines. Special software is being written to make them compatible with Acorn, Apple, Tandy and Pet home computers initially, and with RML, Sinclair Spectrum, Sinclair ZX 81 and Dragon models by mid-March.

"Home use" programs will help in the management of freezer stocks or mortgage repayments. There will be a host of video games available —the user just has to be able to afford the phone bill.

The other main market will be schools, every one of which in Britain will have a computer by the end of this year. Micronet will not just give them access to Prestel and an *educational data base* particularly helpful in mathematics teaching, but enable schools to interact with each other.

A launch into a third main market — business users — will be made in the summer.

How tortoises can overtake hares

IF AMERICAN manufacturers are to get back on to an equal footing with their Japanese and German competitors they should stop trying to behave *like hares* and become more tortoise-like.

Typically inscrutable advice from the Japanese themselves? Or a gem of true Irish wisdom, shouted from the industrial sidelines?

Neither. It stems from a man who over the past three years has become one of the sternest home-grown scourges of American business practice, Professor Robert Hayes, of the Harvard Business School.

In a speech to the European Management Forum's Annual Davos Symposium earlier this month, Hayes claimed that American manufacturing companies have tended to think of improving their competitive position through what he calls intermittent "strategic leaps" in technology products and processes, rather than the step-by-step "incremental improvement" at which Japanese and German companies excel. Hence, the "hare" and the "tortoise."

A hare-like approach *is* no longer always effective, Hayes suggested. Apart from all the constraints imposed today by high investment costs, low economic growth and the rest of industry's catalogue of problems, the great risk is that a new breakthrough may not always be available precisely when it is needed. The result is all too evident to U.S. business today, as it struggles to catch up with all those Japanese tortoises.

Step by step

For companies even to turn partly tortoise is no easy matter, Hayes warned. On a whole series of counts the two approaches reflect and require very different corporate structures and managerial attitudes.

In a warning which somewhat undermined his analogy—a hare presumably finds it easier to move tortoise-like than a tortoise does to run like a hare —Hayes warned that it was far less easy for a "strategic leaper" to turn "incrementalist" than for a step-by-step practitioner to adapt itself to a competitor's leap in new technology.

The "strategic leap" approach demands great expertise at the upper levels of the organisation, according to Hayes, through strategic planners, financial analysts and the whole canopy of staff functions. It creates "high personal visibility and vulnerability." "You're either a hero or a goat," Hayes observes. He obviously likes animals.

As a result, the people who get to the top tend either to be gamblers or executives who "stand on the sidelines" avoiding risk wherever possible. The approach also encourages rapid managerial turnover.

The "incremental" approach on the other hand tends to be far less top-down. It assumes that projects "will bubble up from the bottom" and therefore requires considerable expertise at low levels in the organisation, and participation at all levels, by committed, experienced managers. It does not require either massive investment or large staff organisations.

Flexible

One way for companies to shift themselves along the spectrum towards "incrementalism" was for them to change the way they handled strategic planning, Hayes suggested. Instead of the usual rigid approach of setting goals first, then working out strategies, and only afterwards thinking about resources, companies should adopt a more flexible line of focusing first on the capabilities of the organisation and then setting strategy with the help of "an underlying vision" of where the company should go. Given the hostility and uncertainty of the current business environment, there was no point trying to navigate with the help of a detailed road map, said Hayes. That was only of use when the highway system was clearly marked.

In today's circumstances a more appropriate and basic device to help gain a sense of direction was a compass, "Hayes concluded. "When you're lost in a wilderness that's what you need."

As part of a special report on "people and productivity" an article by Robert Hayes on "Tortoise and hare approaches to industrial competition" is contained in the latest issue (No 6) of Outlook, a magazine published by Booz Allen and Hamilton, the New York-based management and technology consultancy.

Christopher Lorenz

THE ARTS

The Two Ronnies/Palladium

Michael Coveney

The pairing of large Ronnie Barker and small Ronnie Corbett has bee none of BBC TV Light Entertainment's more inspired ideas. They are an unusual comic double act in that they are not really comics in the old variety sense of the word. They are two highly accomplished comic actors whose chemistry works not through an established rivalry or even physical exploitation of their manners and appearance, but through their material which is often of a very high quality indeed.

At the London Palladium we have a big, blowzy full-blown variety shows that brings them together in some of their best-loved TV sketches: as village idiots; as Wrens in drag on the poop of a large battleship *en fête* with flags and leggy chorus girls; as Queen Victoria and John Brown, chewing the fat over a glass of Scotch.

Each sketch is given full design weight, even if the backdrops are not all that well painted. No design is needed for the *Mastermind* item, in which answers are delivered out of synch with the questions, resulting in both immediately hilarious incongruity and a chaotic knock-on effect. Arich seam of verbal surrealism runs through the evening, in fact, whether it be in the sketch of a short-sighted optician fumbling to accammodate a near-blind customer who ends up, literally, reading the furniture; or when Barker becomes an old-time cinema commissionaire whose ungovernable predilection for bad puns has led him to string the names of film stars together in paragraphs of confessional insanity.

Ronnie Corbett delivers one of those confidential monologues that seems to have no logical progression but suprises in its deft tying of loose ends. This is the one point in the show when the mask is allowed to drop, and the two-way traffic of theatrical communication is given the green light. Elsewhere, the performance is one of rigid and expert comedy playing. The highlight, perhaps, is the amateur dramatic scene, where a piece of dubious 1920s romantic fluff is delightfully undermined by sticky doors, less sticky beards and wigs, and the sort of incompetent panic lately celebrated by Michael Frayn in *Noises Off*.

In the changes, there is a good acrobatic act from Poland, The Koziaks, in which a girl hangs suspended like a boiling chicken in a butcher's window supported by three hefty male accomplices; Les Turlupins, from France, in which a flustered maestro plays musical variations in mime on a limber feminine instrument; and the British singing group, the Stutz Bear Cats, who outstay a deserved welcome by about 10 minutes.

The dancing chorus of four boys and 20 girls is beautifully costumed and very well drilled.

Else Paaske/Wigmore Hall

David Murray

Miss Paaske, a Danish mezzo-soprano whose recital on Friday was accompanied by Geoffrey Parsons, has won many awards: among many others in the 1960s, the Kathleen Ferrier Prize at S'Hertogenbosc, and more recently the Aksel Schiotz Prize. The voice is pleasant, cultivated and evenly produced (though the timbre pales quickly at the upper and lower limits of her register), she uses it with rigorous good taste, and she has sensible notions of what her songs are about. Why, then, was this such a profoundly boring recital?

Perhaps it wouldn't have been to Danes. One hears that *Lieder* are treated very soberly in Scandinavia, with any hint of personal expression — or worse still of theatre — considered an embarrassing gaffe. It does not follow that Scandinavians find *Lieder* thus sung *interesting*; quite possibly that is not a quality they admire. It was clear that Miss Paaske respected all her chosen songs too much to presume to *do* anything with them, and wished only to present them for our edification. Here and there Mr Parsons showed unruly signs of interpretative life, but the sheer steady mildness of his singer always prevailed.

Schumann's *Liederkreis* on Eichendorff poems, op 39, can rarely have sounded so temperate and unvaried. The words of all but the first two songs were omitted inadvertently from the programme, which denied us the feast of "line by line" translation for which the Englished "Intermezzo" had whetted the appetite: "Your image wonderfully-happy/have I in the heart's-bottom/that looks so lively and gaily/me at at every hour." (I am not making this up).

The Debussy *Chansons de Bilitis* were all chaste innocence, though piano parts betrayed an alien sensuousness, and Miss Paaske's phrasing was musicianly. There was a harmless Danish cycle, by P.E. Lange-Müller, *Sulamith and Salomon*, which conveyed tame romantic melancholy in measured tones. Miss Paaske found a little more energy for the Brahms *Gipsy Songs* (spurred on by Parsons)—no insouciant passion, of course, but a real sense of healthy outdoor games.

Arts news in brief

Former Sheffield Wednesday footballer James McKenna is among the cast in *Just a Kick in the Grass*, a play about a fight to save a soccer pitch threatened by development, which opens at the Churchill Theatre, Bromley, on March 3.

*

The latest play by young writer Tony Marchant, 23, opens at the Royal Court Theatre Upstairs on March 16. *Welcome Home* tells the story of five soldiers on their way to be pall-bearers at the re-burial of a comrade killed in the Falklands.

*

Howard Barker's *Victory*, a comic play set in the Restoration period, opens on March 23 at the Royal Court Theatre. The production is being presented by the Joint Stock Theatre Group in association with the Royal Court.

*

An exhibition of the work of more than 100 contemporary British theatre designers opens at the Round House, London, on February 24. Organised by the Society of British Theatre Designers, the exhibition runs until March 19.

*

Rudolf Noelte has withdrawn as producer of the Welsh National Opera's production of *Parsifal*, which opens on March 1. The production will now be staged by Mike Ashman and designed by Peter Mumford.

The cast will include Donald McIntyre, Linda Esther Gray and Phillip Joll. Reginald Goodall will conduct.

Architecture

Colin Amery

Enlightened patronage

It cannot be said too often that the secret of good architecture is the right combination of architect and client. IBM (UK) is a paragon in this respect. Surprisingly for an international corporate company with enormously widespread international ramifications there is close and down to earth supervision of the whole question of individual new buildings.

The success IBM has achieved is because the organisation has cultivated the best talents in the architectural field of each country where it is based.

In this country IBM (UK) has been responsible for some of the most daring and successful industrial commissions. Early in the race to use the talents of Norman Foster, it has been loyal and consistent clients of Arup Associates, and is now utilisising the talents of Sir Denys Lasdun to design its main London offices on the important site next door to the National Theatre on the South Bank of the Thames.

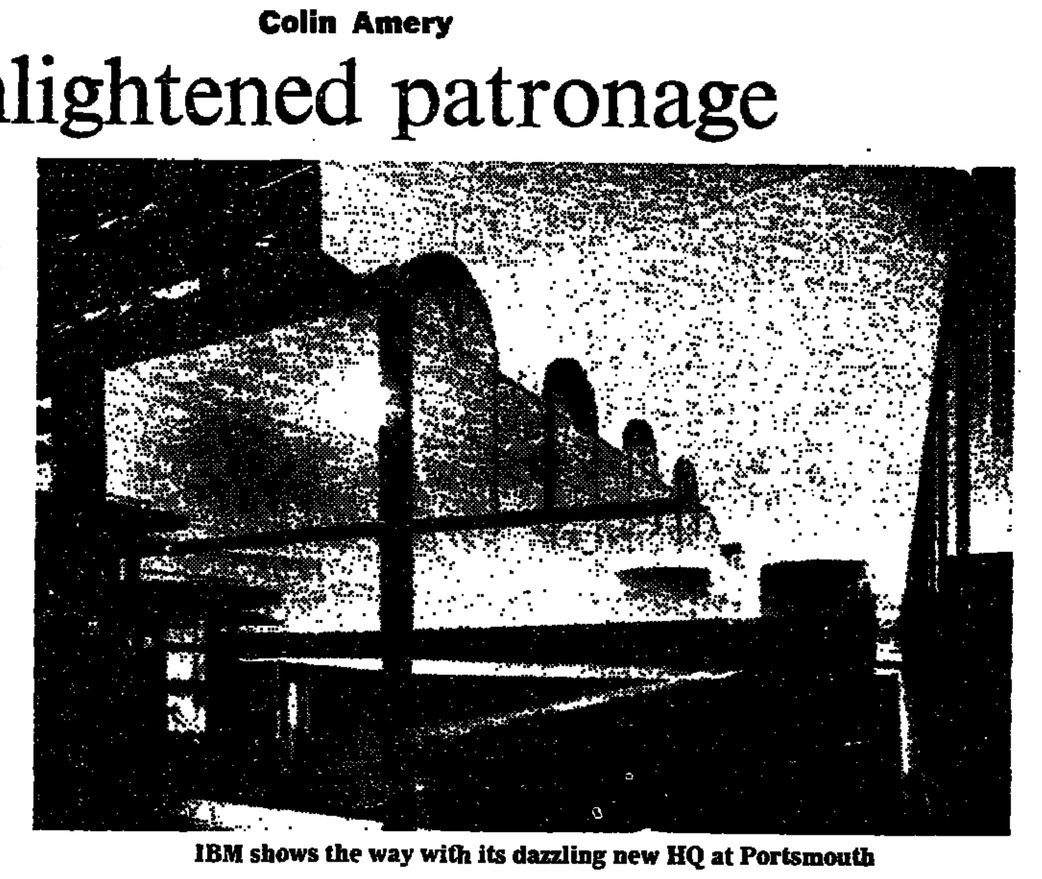
This story is true all over the world where IBM has without fail put the high standard of working environment at the top of the list of priorities.

I recently visited the administrative headquarters for the UK at North Harbour, near Portsmouth. The original master plan was drawn up by Arup Associates in 1972. It is a difficult site, close to major roads and partly reclaimed land. The three phases of the scheme have now been linked by the completion of the final phase—a group known as phase four and a series of links to unite the whole site.

As the company's activities grown and the nature of its products changed so the total brief has been modified. The site at North Harbour is now an interesting exercise in the development of architectural treatments of a commercial brief.

I think it would be fair to say that the development of the approach to the whole nature of the offices required for this site has opened and relaxed as the client and the architects have become friends. I suspect that Arup Associates have gradually learned that, despite the demand for tight security, the complex nature of much of the work of the company, there is a way that the aesthetic principles and the commercial ones can be allied in a totally convincing way.

Because the last phase of this project incorporates all the social and circulation areas there is an almost festive air about the use of glass and steel and the abandonment of the straight line. The principle has been established of a long glazed link—a "street" which has an arched roof. This runs at a first-floor level separating people and services and, when linking separate buildings, is a single storey structure.



IBM shows the way with its dazzling new HQ at Portsmouth

The four distinct office blocks are each attached to this passing street. They are very different in their architectural treatment. Each block is three storeys with a stepped section which produces terraces at first and second-floor level. Arup are good at these terraced buildings—indeed they have become almost their trademark. Each terrace is planted and sheltered by a louvred overhang—acting at the same time as fire escapes.

Curves, light and colour and enlightened commissioning of works or art show how the image of business can be enhanced.

The emphatic main entrance to the whole complex is a distinctive pavilion, highly glazed and containing the main reception hall, an assembly room and exhibition space. Two escalators carry the visitor and staff to the first-floor street.

IBM's patronage does not stop at the selection of the right architect. At North Harbour the company commissioned two bold and effective works of art. Richard Smith's huge trailing kite-like mobile called *Leaps and Bounds* is a triumph for this light and sun-filled space. Robyn Denny has designed a large enamel panel for the reception area which is effective but much less exciting than the Richard Smith.

The achievement of Arup Associates and IBM at North Harbour is a considerable one. They have by the completion of this large site humanised the working environment for a large number of employees.

* * *

That admirable, stalwart and powerful lobby SAVE Britain's Heritage, has just published one of its regular series of reports on threatened species. Kate Pugh has documented the decline and fall of the estate village. This is not just another *cri de coeur* from backwoods conservationists because she raises vital aesthetic questions about the effect of the break-up of the country estate and the sale of masses of small buildings to individual owners.

It is the small things that count. Glazing bars, chimneys, porches, porticoes and dormers are too often replaced by unsuitable modern ones or destroyed altogether. It is a process of steady decline and mutilation.

Kate Pugh has been all over the country looking and photographing. She has a good eye. The sad spectacle of the village of Great Tew in Oxfordshire where cottages have collapsed. Hideous flat roofed extensions to the picturesque village school at Somerleyton in Suffolk have totally spoiled the flavour of the place.

At Wentworth in South Yorkshire the scale of the problem of maintenance and repair is lucidly explained in this report. Slow progress is made because the estate's income can hardly cover the soaring costs of sensitive modernisation. The work of the Derbyshire Historic Buildings Trust on the railway cottages at Derby shows how effective conversion and repair can save some of the heritage of the industrial revolution.

Estate Villages—Who Cares? is available from SAVE Britain's Heritage, 3 Park Square West, London NW1, price £3.50 (UK only).

Mayerling/Covent Garden

Clement Crisp

In three performances last week *Mayerling* gained progressively in theatrical power as a show-piece for the Royal Ballet. At Monday's performance the ensemble seemed still to be adjusting to the demands of the work. By Wednesday, and Derek Deane's debut as Rudolf, the company machine had generated full force, surrounding Mr Deane with experienced interpreters at their very best, and with a sense of corporate dramatic understanding that was superbly effective. On Saturday night, with some few novelties of casting, the concentration of the company's playing, made for a taut, totally committed reading.

Wayne Eagling was Rudolf, angrier and more tightly focussed in suffering than heretofore, and never better than in the scences with his mother and with Mary Vetsera. Vergie Derman caught everything of the beauty and unhappiness of the Empress Elizabeth, and the icily exquisite distaste she showed for her son's emotional appeals—the wound at the centre of his being—was exquisitely done. Alessandra Ferri seems to understand, and can miraculously reveal, every twist and turn of Mary's obsessive nature.

Her debut in the role earlier this season was thrilling; on Saturday she confirmed that she is a dance actress in whom beauty of physical means (movement meticulous in clarity; the body opening out in ravishing lines to the dance) is matched by an expressive passion, so that the least step speaks of feeling. Typical, in its precision as in its physical allure, the scene when Mary first comes to Rudolf's apartments; tantalising, then yielding. Miss Ferri exactly showed the girl's intoxicating sexuality and the psychological sympathy she felt for Rudolf. This is in every way an ideal portrayal; and it indicates a uniquely promising talent.

In an otherwise established and excellent cast (Graham Fletcher's Bratfisch a marvel of sensitivity), Karen Paisey was new as Rudolf's hapless bride, Stephanie. She gave a gentle, unemphatic reading, more concerned as yet with security in the hair-raising leaps and holds of the bed-room pas de deux, but there were hints of a dignity and presence for the young Princess which will help fill out the character in future performances.

Countess Maritza/Sadler's Wells

Rodney Milnes

Continental opera house schedules suggest the Kálmán has overtaken Lehár in the operetta popularity stakes, and *Maritza* (1924) shows why even more than *Gypsy Princess*: here is a profusion of beautifully crafted melodies, by turn swoonily and piquantly orchestrated, sitting atop a zanily inconsequential plot with little of the gluey sentiment of late Lehár and, thankfully, none of the pretentiousness. Nigel Douglas's new translation is idiomatic and funny, neatly defusing the rather shy-making class attitudes in the plot—indeed, this is an odd show to encounter in a venue that has just won a substantial grant from the GLC to turn itself into a community theatre.

But this, the third of the New Sadler's Wells Opera's current series, is a merry evening. Musical values are safe in the hands of Barry Wordsworth, who conducts as if on the Puszta born, and triumph over such potential drawbacks as sets of quite startling hideousness, some slight under-casting and, at last week's premiere, a sticky first act that never quite got off the ground. Things improved, though, and Mr Douglas's production worked well simply because he made no excuses for the piece but played it for what it is.

Marilyn Hill Smith, most unflatteringly costumed and coiffed, missed the "mad-cap Maisie" side of the title-role, and played her distinctly sourly in the first act; however silly an operetta heroine is I think audiences must lover her. Luckily, she softened somewhat with the onset of true love, just as Ramon Remedios, playing her pseudonymous lover, mercifully found his sense of pitch after the interval. Dashing dialogue, though, does not come naturally to him.

Laureen Livingstone fielded bags of charm as the seconda donna—she is a lovely artist—and shook a nifty leg. In the main comic role Tudor Davies played resolutely out front rather than to his colleagues; his love affair with Wells audiences is getting a bit embarrassing. For the rest, the company worked hard and convincingly whether as smouldering gypsies or blasé *rentiers*. A dance for six girls and six tennis rackets (we are in *Boy Friend* territory) was a joy as choreographed by Michele Hardy. Joan Davies and Julian Moyle were towers of strength in supporting roles. A delightful evening's entertainment, then, which should get even more so now that the rigours of the first night are past.

Scenes from a Voyage to the Indies/Nottingham Playhouse

B. A. Young

John Harrison sets his play in the roundhouse (virtually the wardroom) of an outward-bound East Indiaman in the late 18th century—a smashing design by Richard C. Baker, which has only one disadvantage, it is too stable in a high sea. In it he drops all the materials of a romantic novel. Captain Bennett (Kenneth Colley), the veteran skipper, is unhappily married. Matthew Cropper, the First Mate (Philip Lowrie), is young, ambitious and lecherous. Arther Cosway (Gregory Doran) is young and innocent. Donald Gowdie (Peter Laird) is a traditional drunken Scots ship's surgeon.

To them come the remaining passengers: Judge Wedderburn (John Hart Dyke), sailing to India to avoid th escandal of having sided with the rebel American colonists, and his pretty young—comparatively young—wife Lucy (Linda Gardner), doomed by doctors to an early death. What happens among them is seldom unexpected, save that the Captain, who has fallen in love with Lucy, sails the ship wildly off course (as checked by the Judge's new chronometer, just invented by the author's eponym), and leaves the situation to be righted by the Mate rather than himself.

Romantic novel material indeed, and the dialogue has a literary flavour, too. But it would be a passably good novel, and the dialogue, under Andrew McKinnon's direction, is spoken convincingly enough to sound perfectly natural. Certainly Mr Harrison has used some evident plot mechanisms. The Captain keeps his private diary in the ship's log, and what's more, alows Lucy to read it, even allows the others to know she reads it. And I found it altogether too convenient that Lucy, denied the privilege of sharing her husband's cabin, should be accommodated in a recess off the roundhouse (though I dare say this is one of the author's borrowings from William Hickey, the real William Hickey).

Viewed in a romantic spirit, the play kept me carried along partly by the quality of the acting, which seems to me on the whole pretty good. Mr Colley keeps the Captain restrained and quiet, even when he succumbs to Lucy's temptation, or declines to relieve the Mate on deck when an unauthorised cast shows only three fathoms when it ought to show 20. He is clearly pushing himself towards a sad retirement, and cares little if it is retirement in disgrace. His surrender to Lucy brings him not joy, but a renewed determination to torpedo his glittering career.

Linda Gardner looks young, both in manner and looks, considering we are told she has been married 20 years to the Judge, a kindly old chap in Mr Hart Dyke's performance, but free from any touch of frivolity. Cosway's despair at having caught the clap during a call at the Cape of Good Hope is prettily caught by Gregory Doran.

Mr Harrison has saved up some surprises and unexpected resolutions for the last of his five acts (or scenes, as he calls them). If he is sometimes a little slow in getting there, I find on reflection that there were not many moments when I wasn't genuinely interested. My references to sentimentality should not be taken adversely. *Sense and Sensibility* is a sentimental romantic novel. This play is not at that level, but I guess it should give much pleasure to a lot of people.

'Electronic Music Now' at the Round House

A concert of electronic music using computer-generated sounds and some of the latest techniques of live electronics will be given at the Round House on Sunday February 27 at 7.30 pm. This is the first of 13 concerts in an Arts Council Contemporary Music Network tour of England which ends on March 13.

Supervising the electronics is composer Tim Souster who wrote music for the TV series *The Hitch Hiker's Guide to the Galaxy*. An injection of natural sounds into the electronics is provided by trumpet- and flugel-horn-player John Wallace, principal trumpet of the Philharmonia Orchestra.

Jazz tour for Sacha Distel with Barney Kessel

For the first time in Britain, Barney Kessel and Sacha Distel are to present their *duo de guitares* show which has proved so successful in France. However, it is emphasised that Distel will not appear as a singer in any of the concerts.

With the two guitarists will be vibraphonist Peter Appleyard, British-born but who now lives in Canada, and the Brian Dee trio.

The locations for the two-week tour include Southport, Dublin, Manchester, Leicester, Yalding (near Maidstone), Eastbourne, Grimsby and Ronnie Scott's in London (March 10, 11 and 12).

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

February 18–24

Music

PARIS

Orchestre National de France conducted by Sylvain Cambreling, Philippe Entremont, piano: Cherubini, Bartok, Schubert (Wed). Theatre des Champs Elysees (7234777)

Orchestre de Paris conducted by Charles Dutoit, with Elisabeth Leonskaja: Dutilleux' Métaboles, Liszt's piano concerto no 2, Stravinsky's Petroushka, 1st version (Wed, Thur). Salle Pleyel (5638873)

Claude Kahn: Beethoven, Chopin, Debussy, Liszt (Thur). Salle Gaveau (5632030)

Christian Ivaldi, piano: Haydn, Schubert, Berg (Mon). Salle Gaveau (5632030)

Barbara Hendricks, recital (Mon). Théâtre de l'Athenée (7426727)

Narciso Yepes, guitar (Mon). Salle Pleyel (5638873)

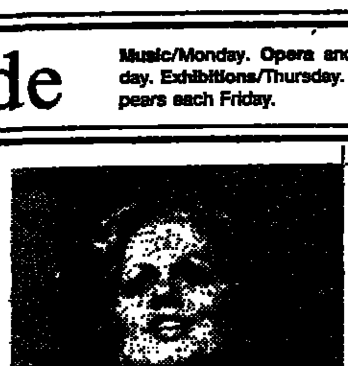
Academy of St Martin-in-the-Fields, Iona Brown as conductor and violin soloist: Handel, Grieg, Vivaldi, Tchaikovsky (Mon). TMP-Chatelet (2611983)

Ensemble Orchestral de Paris conducted by Jacques Houtmann, Gabriel Tacchino, piano, Guy Touvron, trumpet: Haydn, Casanova, Saint-Saens (Tue). Salle Gaveau (5632030)

LONDON

English Chamber Orchestra conducted by George Malcolm with Graham Sheen, bassoon. Handel, Vivaldi and Geminiani. Queen Elizabeth Hall (Mon). (9283191)

London Symphony Orchestra conducted by Riccardo Chailly with Krystian Zimerman, piano and Katia Ricciarelli, soprano. Beethoven and Wagner. Royal Festival Hall (Tue). (9283191).



Katia Ricciarelli, at the Royal Festival Hall, London

Academy of Ancient Music directed by Christopher Hogwood with Christophe Coin, cello. Haydn. Queen Elizabeth Hall (Tue).

Royal Philharmonic Orchestra conducted by Johannes Somary with Shura Cherkassky, piano. Glinka, Rachmaninov and Dvorak. Barbican Hall (Tue). (6388891).

Royal Philharmonic Orchestra conducted by Yuri Temirkanov with John Lill, piano. Mozart, Rachmaninov and Tchaikovsky. Royal Festival Hall (Wed).

London Mozart Players conducted by Mark Elder with Howard Shelley, piano. Mozart, Stravinsky and Haydn. Queen Elizabeth Hall (Wed).

Parikian-Fleming-Roberts Trio: Beethoven, Rawsthorne and Dvorak. Wigmore Hall (Wed). (9302232)

Philharmonia Orchestra and Chorus conducted by Kurt Sanderling with soloists including Heather Harper and Martyn Hill. Brahms and Schubert. Royal Festival Hall (Thur).

Leipzig Gewandhaus Bach Orchestra and London Bach Society conducted by Paul Steinitz. Bach. Queen Elizabeth Hall (Thur).

NEW YORK

New York Philharmonic: (Avery Fisher Hall, Lincoln Center): Zubin Mehta conducting, Hildegard Behrens soprano. Schubert, Schoenberg (Tue); Christoph von Dohnanyi conducting, Bella Davidovich piano. Beethoven, Schumann, Trojahn: First Sea Picture (U.S. premiere), Strauss. (Thur). (8742424)

Carnegie Hall: Philadelphia Orchestra, Andre Previn conducting, Vladimir Ashkenazy piano. Haydn, Brahms, Debussy (Mon). American Symphony Orchestra, Gunther Schuller conducting Kaori Kimura piano. (Wed). Brigitte Engerer, piano recital. Chopin, Schumann, Debussy, Prokofiev (Thur) (2477459)

American Brass Quintet (Carnegie Recital Hall, 57th & 7th Av): Paul Dunkel conducting, Barbara Martin mezzo-soprano. Bassett, Druckman, Ives, Plog, Welcher (Mon). (2477459)

William Sharp baritone recital (Y 92nd & Lexington Av): Schubert, Loewe, Respighi, Wolf, Ives (Tue). (7592541)

Susan Galick guitar recital (Merkin Hall, 67th w. of Broadway). (Wed). (3628719)

CHICAGO

Chicago Symphony (Orchestra Hall): Claudio Abbado conducting, Shlomo Mintz violin, Ray Still oboe. Mozart, Berg, Prokofiev (Thur). (4358122)

Pinchas Zukerman violin, Eugenia Zukerman flute (Orchestra Hall): Duo recital (Tue). (4358122)

BRUSSELS

Palais des Beaux Arts: Belgian National Orchestra conducted by Henry Rodan with Igor Oistrakh, violin. Chevreuille, Tchaikovsky and Brahms (Thur).

ZURICH

Tonhalle: Tonhalle Orchestra conducted by Hiroshi Wakasugi with James Galway, flute. Schubert, Nielsen and R. Strauss. (Tue, Wed and Thur). (2011580)

VIENNA

Musikverein (658190): Zagreb Soloists. Vivaldi, Villa-Lobos, Shostakowitch, Martinu and Parac. (Wed)

Konzerthaus (721211): Bartok Quartet. Bartok, Schubert, Mozart (Tue); Vienna Symphony Orchestra: Haydn, Shostakowitch, Beethoven. (Thur)

WEST GERMANY

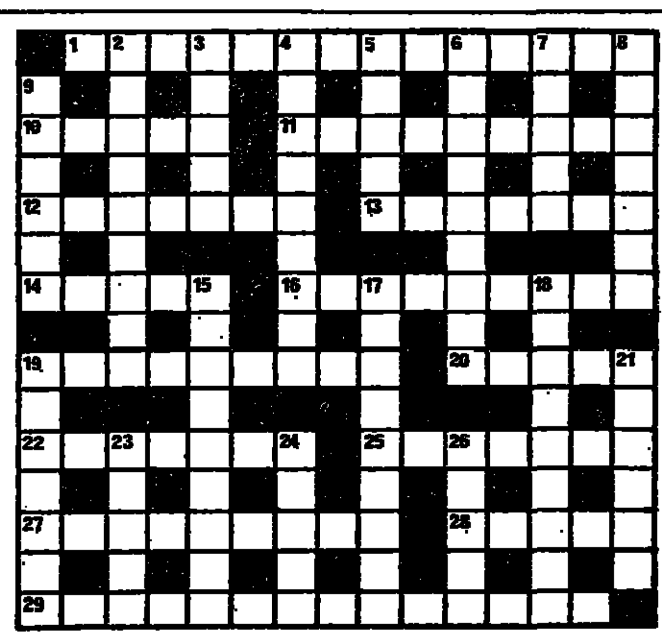
Berlin Philharmonie: London Philharmonic Orchestra, conducted by Klaus Tennstedt. Mozart and Mahler (Wed); Alfred Grendel, piano. Beethoven Cycle (Thur)

ITALY

Rome, Auditorium via della Conciliazione: Conductor Daniel Oren and violinist Igor Oistrach. Weber, Rachmaninov and Kodaly (Sun, Mon and Tue).

Rome, Auditorium Teatro Olimpico: Gustav Leonhardt, harpsichord. Frescobaldi and Bach.

F.T. CROSSWORD PUZZLE No. 5,103



ACROSS

1 Lived to make a comeback in Goethe's "Faust." (14)

10 These days many leave sect to appear grown-up (5)

11 Immediately transient perhaps (9)

12 Could flow from the man at elocution lesson (7)

13 Want sailor to have sound understanding (7)

14 Heads turn when instructor starts teaching dance (5)

16 Might be read to listeners (9)

19 Troubled under the influence of liquor once (9)

20 A mistake — dread losing capital (5)

22 Of a flower there is nothing aural (7)

25 Swift islander (7)

27 It's in the blood to make appropriate noise (9)

28 Switch clean blade (5)

29 Swain's super mixture turns out to be a weed (9, 5)

DOWN

2 Turned up in high spirits for feasting (9)

3 Shed has one — a hog rat (5)

4 Arachnid on fellow steel erector (9)

5 Maybe so is a musical alternative (5)

6 One's name on this if late (9)

7 Ben's queen of tongues (5)

8 Supreme Court magistrate gets begging letter (7)

9 Although falling "Mortimer" is not disheartened (6)

15 China's anniversary (9)

17 Moonlighters have them (6)

18 Nuisances may be minor (9)

19 Are monkeys able to have dainty food? (7)

21 Translate to clarify (6)

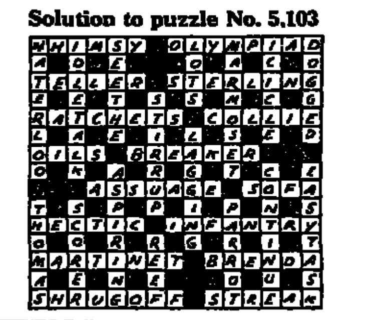
23 Nothing to do at this end (5)

24 Policemen hesitate to have a drink (5)

26 Sauce brought up to the French dish (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Solution to puzzle No. 5,103



FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday February 21 1983

Future of the welfare state

MRS MARGARET THATCHER, the Prime Minister, said in the House of Commons last week that the Government had no intention of dismantling the welfare state. Yet a series of leaked documents over the last few months shows that the Tories are at least exploring the possibility of shifting some of the services now provided by the State into the private sector.

Last September a document produced by the Central Policy Review Staff (CPRS) suggested among other things possible *changes in the funding of the* education system and the national health service. Last week yet another set of leaked papers revealed that Cabinet Ministers were toying with a variety of ideas for encouraging individuals and families to rely more on themselves and less on the State; the suggestion is that in health, pensions, caring for the elderly and other fields there should be more private provision of social needs.

The most pressing reason for a thorough review of the machinery of the welfare state is a financial one. Quite apart from the effects of recession and low economic growth, demographic factors will place severe strains on the social security system; a critical scrutiny of the level of benefits and how they are financed is unavoidable. For the same reason new ways have to be found of cutting costs in state bureaucracies like the health service; the Government's plan to contract out certain ancillary activities like laundry and catering to the private sector is one promising approach. The internal pressures for cost control in these organisations are inadequate. Large bureaucracies can create vested interests which are more concerned with building their own empires than with giving the customer what he wants at the lowest possible cost—though this is not a problem unique to the public sector.

Attitude

There is, however, more than cost-consciousness in the Government's attitude to these matters; it contains a strong element of ideology. Some Ministers regard the nationalised industries as almost by definition parasitic and inefficient. In the same way they appear to attach a moral as well as an economic superiority to privately-financed health care—and perhaps even to private education—as opposed to the state-funded versions.

But as Professor James Meade has pointed out, there are some areas in which the requirements of efficiency, freedom and equity cannot be met simply by reliance on private initiative and free markets. In health care, for example, the provision of services by the State at low or zero cost may be the best way of satisfying those requirements.

A free health service financed largely out of general taxation redistributes from the rich to the poor and from the habitually well to the habitually sick. The administration of the health service poses many difficult organisational and financial problems, but a system which relies wholly or mainly on private health insurance would almost certainly impose substantial burden on the poor and the sick.

No doubt it is irritating for Ministers when internal papers relating to informal discussions are leaked to the press. But the effect of the disclosures has been to raise questions about the kind of society Mrs Thatcher and her colleagues wish to move towards; there is even a hint in the documents of social engineering, as though the Prime Minister and her colleagues are seeking to impose their own values and life-styles on everyone else.

Efforts

For our part we are in general sympathetic to the Government's economic objectives, and in particular to its efforts to allow markets to work. *It is fair to point out,* though, that even on this front the Government's record is patchy. In industrial and trade policy there is a marked reluctance to allow markets to work, while in housing the desire not to offend special-interest groups has allowed serious distortions in the tax system to persist.

Much of what the Government has done to remove obstacles to the operation of the market, notably its attack on monopoly, has won wide public support — or at least would do so if it was accompanied by a *social policy which was seen to be fair.* The danger is that progress towards a better public understanding of markets—and of the connection between costs, profits and jobs — will be thrown away by an apparently doctrinaire approach to social issues.

To clear up the confusion the Government needs, first, to publish an objective analysis of the present and future costs of the social services, so that an informed public debate can take place on what cutbacks, if any, are necessary on economic grounds. Then, if the Government has coherent proposals on specific issues such as private health insurance or education vouchers, these should be explained in the form of Green Papers.

Monopoly, mergers and disclosure

WHEN a hotly-contested merger finally wins the approval of the Monopolies and Mergers Commission, the Director General of Fair Trading and the Secretary of State for Trade, not to mention the shareholders in the bid victim, there is a strong temptation for all concerned to *leave the victor to digest its* acquisition in peace. Yet the question of whether the merger operates in the public interest remains relevant after the event—the more so where a monopoly is involved.

Answers, however, are harder to come by in the present state of disclosure and accounting practice. And rarely has this been more piquantly demonstrated than in the case of S. and W. Berisford's recent takeover of British Sugar Corporation, which also raises a host of wider issues.

When it reported on the proposed merger in 1981 the Monopolies Commission was rightly concerned about the potential loss of information that might result. British Sugar is the only purchaser of sugar beet in Britain, as well as the dominant sugar producer. Hence the Commission's suggestion that the merger would operate against the public interest unless British Sugar were maintained as a separate subsidiary producing enough information on its financial position and productivity for beet purchasers and others to assess its record in operating the monopoly.

Hence, too, its suggestion that the potential adverse effects could be remedied if Berisford gave undertakings under Section 88 of the Fair Trading Act 1973. The proposed under*taking was that* Berisford should maintain British Sugar as a separate subsidiary without major changes in its activities or purposes; and that it should publish annually reports and accounts containing much the same information as that con*tained in British Sugar's 1979-80 report.*

Berisford has chosen to interpret its obligations fairly loosely. Last week's accounts from British Sugar were largely expressed in current costs, with only sparse accompanying historic cost information. The group accounts of Berisford, meantime, contained historic cost figures with no current cost accounts.

The farmers who buy the beet and those like the OFT who have a mandate to look after the public interest will *thus not* find it easy to satisfy themselves as to what is going on.

In fairness it should be said that some confusion is inevitable while the debate on inflation accounting rumbles on. And there are other accounting obstacles to an adequate measure of post-merger financial performance. If the assets of the victim are taken into the acquiring company's books at its own fresh assessment of their fair value, subsequent depreciation and cost of sales figures may not be comparable with what appeared before.

At the same time the 1967 Companies Act 1967 left open a gaping loophole in disclosure. Having sensibly suggested that the directors' report should show company results broken down between different types of activity, it left it entirely to the directors' discretion to decide whether they were carrying on more than one class of business. At the same time The loophole still exists, despite the 1981 Companies Act's more detailed requirements for disaggregation.

When performance cannot adequately be measured, management has a powerful incentive to embark on conglomerate takeovers, not least because corporate enlargement provides an excuse for raising salaries and perks. This is hardly the way to foster efficiency and competition. Perfect comparability in accountancy is, however, a chimera. And if a recent academic survey is to be believed, institutional investors cannot uniformly be relied on to understand basic accounting information. But that is an *argument for educating professional investors,* not for putting up with poor disclosure. Berisford should be more forthcoming. And the Companies Acts should be stiffened on disaggregation.

WEST GERMAN ELECTION CAMPAIGN

Why Vogel worries the U.S.

By Jonathan Carr in Bonn

IF ANY further evidence had been needed to prove that the West German election campaign has become the main political battleground between East and West, President Ronald Reagan has provided it.

Answering questions at his Press conference last week, Mr Reagan said it would be "a terrible setback to the cause of peace and disarmament" if a Bonn government reneged on Nato's nuclear missiles, stand after the March 6 poll.

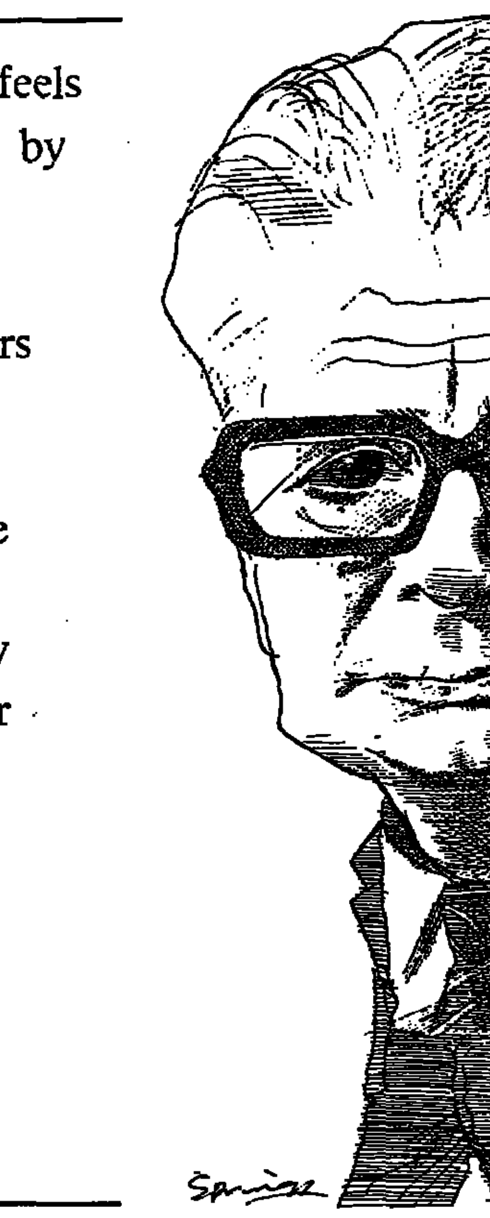
The President was careful to stress that he did not mean to interfere in West Germany's internal affairs. He also said that Dr Hans-Jochen Vogel, the opposition Social Democrat Party (SPD) candidate to become Chancellor, had "indicated support" for the U.S. proposals in the missiles negotiations with Moscow. But his deep concern about the election outcome was unmistakable. It is the same concern expressed privately by Western diplomats in Bonn—above all the British and French—and it centres on Dr Vogel and his SPD.

Go to any of Dr Vogel's election meetings and at first you may wonder what all the fuss is about. The SPD candidate looks so serious, indeed so conservative, a figure that he could easily pass as a distinguished medical consultant addressing trainees in a lecture theatre. Dressed in a neat, dark suit, occasionally adjusting his spectacles on his hawk-like nose, Dr Vogel—who was 57 this month — diagnoses that the country is suffering from an overdose of conservative government (albeit one less than five months in office) for which he has the necessary leftish antidote. His tone is moderate, his opponents are criticised more in sorrow than anger—*beads of sweat rarely* break out on his brow, even after an hour or two on a rostrum under arc lamps.

But if that were all there was to Dr Vogel, it would be hard to explain how he has brought off something like a political *miracle — namely uniting the* SPD and stepping easily into the shoes of ex-Chancellor Helmut Schmidt (who is remaining very much in the background during this campaign).

In the months before the collapse last September of Herr Schmidt's centre-left coalition in Bonn, the depressed and divided SPD was given only about 30 per cent of the national vote. Now it is buoyant, on the offensive and opinion polls give it more than 40 per cent. That is still well behind Chancellor Helmut Kohl's Christian Democrats (CDU) and their Bavarian allies the Christian Social Union (CSU) which together have somewhat less than 50 per cent. But at least the SPD has come close enough to worry the Government parties — and leaders in several Western capitals, too. How has the transformation in Social Democrat fortunes been achieved?

The U.S. feels statements by Dr Vogel lump both superpowers together, almost as though one were not Bonn's ally . . . The fear is that Moscow stands to gain a major political victory



Part of the reason is that the SPD has been freed from its 13-year alliance with the liberal Free Democrat Party (FDP) — *and thus from the constant need* to reach compromises in the name of government unity. But the SPD's sense of release might quickly have evaporated, and the party's internal struggles might soon have re-emerged, had it not been for the dexterity of Hans-Jochen Vogel.

Behind his sedate image is a tireless worker whose 16-hour days leave many of his staff gasping with admiration and exhaustion. Dr Vogel has a brilliant lawyer's mind and tongue (he came top out of more than 300 candidates in his law exams). *He can master* complex new issues quickly and talk about them off the cuff without either tripping himself up or (when he wants to avoid it) pinning himself down. His skills have proved a huge advantage in the election campaign — and in apparently reconciling the irreconcilable within the SDP. But, at the same time, there has been a resurgence of charges of political opportunism — familiar to anyone who has followed Dr Vogel's roller-coaster career over the last three decades.

Born into a Catholic family in the university town of Gottingen, Hans Jochen and his brother Bernhard were brought up to aim high. Both did so, but in different political directions. Bernhard joined the CDU and is now Prime Minister of Rhineland Palatinate, ironically the home state of Chancellor Kohl — Hans-Jochen's key opponent.

Hans-Jochen joined the SPD and at 34 became the youngest Lord Mayor that the Bavarian capital city of Munich ever had. In 1966 he won 78 per cent of the vote and later *pushed through a big planning* and building programme for the Munich Olympics in 1972.

It looked like an unbroken success story—but even then Dr Vogel had his doubters and critics. There were the Munich traditionalists who looked on sceptically as the intellectual lawyer-mayor rolled up his sleeves to quaff a beer with apparent relish at city festivities and there were the left-wingers in the Munich SPD for whom Dr Vogel was much too conservative and inflexible.

Called to Bonn as Federal *Building Minister in 1972,* Dr Vogel seemed lost in the national political struggle — always working hard, but constantly disappointed. His big chance came when Herr Schmidt appointed him Justice Minister. The speed of Dr Vogel's decision-taking and his tough upholding of state interests at the height of the terrorist threats in the late 1970s were impressive. Bit by bit, he became known as "Schmidt's Crown Prince"—a reputation which, however, suffered when he fought the *Berlin election in 1981.*

It was not that Dr Vogel lost what was probably a hopeless cause from the first in Berlin which affected his standing in Herr Schmidt's chancellery. It was rather that he showed what was felt to be excessive flexibility towards the squatters, pacifists and other members of the Berlin "alternative scene"—roughly the equivalent of the Greens movement in West Germany. There were many in the SPD who supported—and support—such a strategy. But Herr Schmidt believed that flirting with these elements would cost *the SPD traditional* support, above all in the trade union movement.

How was it that the tough Dr Vogel who had been on the Right of his party apparently moved to somewhere on the Left of it? His supporters say that over the years he gained a new dimension which made him more receptive to the problems of the young. His opponents suggest that he altered his position, calculating that he would pick up votes.

Whatever the answer, Dr Vogel was unanimously accepted as Chancellor candidate by the SPD and is constantly bringing off what amounts to rhetorical conjuring tricks. He says what many people on the Left of the party want to hear, without—in most cases—clearly contradicting the pragmatic policies previously espoused by Herr Schmidt.

The upshot is a lack of clarity in many minds about the course Dr Vogel is now advocating. A recent opinion poll showed that 54 per cent of those asked (from all parties) believed that the SPD Chancellor candidate was sticking to Herr Schmidt's policy line, while 44 per cent believed he was not.

Dr Vogel stresses he is in favour of economic growth—but is no "growth fanatic." He is not against nuclear power—but *thinks it might have been better* had a lot of the money which went into fast breeder reactor development instead gone on environmental protection. He opposes the Greens (who among other things want to see West Germany leave Nato) and thinks they will not gain the minimum 5 per cent of the vote needed to secure parliamentary seats.

At least part of Dr Vogel's verbal skill is clearly devoted to tempting away potential support from the Greens to the SPD—and thus undermining them as an effective political force.

On the other hand, if the Greens did enter Parliament, Dr Vogel could not prevent them from voting for him as Chancellor. However, he would make no concessions. A question-mark exists over just what Dr Vogel's policies would be if the SPD and the Greens finally emerged with a majority in the Bundestag. It is only a possibility. But it is one which, combined with the SPD's attitude to Nato's "twin track" decision on nuclear missiles, is giving Western diplomats nightmares.

The Americans are the most upset, feeling that the SPD campaign platform as well as statements by Dr Vogel himself, lump both superpowers together—almost as though one were not Bonn's ally.

The U.S. complains that it is being urged to show "flexibility" in its position to match movement on the Soviet side, although Washington's stance was adopted in close consultation with its allies—the West Germans in particular. It is recalled that it was Herr Schmidt who first publicly drew *attention to the danger of the* Soviet build-up in intermediate-range missiles in 1977. And it was an SPD-led government in Bonn which strongly advocated the so-called "zero option"—under which no U.S. Pershing-2 or cruise missiles would be deployed in Europe (mainly in West Germany) from the end of this year if the Russians agreed to scrap their arsenal. Now Dr Vogel is saying that a "radical" cut in the number of Soviet missiles (thus leaving at least some behind) would be sufficient to avert Western deployment altogether.

The British and French are irritated, too, because of Dr Vogel's insistence that the nuclear weapons of both countries will have to be taken into account in some way during the superpower talks in Geneva.

Behind the scenes, the British have tried to underline to the SPD that their nuclear weapons were already taken into account in the Soviet-U.S. strategic arms talks—Salt 1. President Francois Mitterrand made a similar point about French weaponry in a speech last month in Bonn—the text of which he hardened at the last moment to try to ensure that there was no doubt about what he meant. But the messages do not seem to have got through—or if they have there is no sign that the SPD *has accepted them.*

The present Government parties — Christian Democrats, Christian Social Union and Free Democrats — have sought to exploit the situation to their advantage by stressing that they are firmly behind the stance of the Western Alliance. But there have been, at least, public differences of emphasis between them, for example, on how far the "zero option" is a realistic aim.

Further, there are signs that Dr Vogel may have made headway with his argument that "Chancellor Kohl wants a mandate from the electorate to deploy missiles, while I want a mandate to do everything possible to make deployment superfluous."

The fear of the Western allies is not simply one of military imbalance — though that is strong enough. If an SPD government were to withhold permission to deploy U.S. missiles in West Germany from the end of this year, then few if any other continental countries would go ahead with deployment, either. More important, it is felt that Moscow would have gained a major political victory and moved a big step towards "decoupling" the European members of Nato from the U.S. With less than a fortnight before the West German poll, President Reagan's warning was clear enough.

Men & Matters

Met "pops"

The British weather terrifies visitors but is a source of endless fascination and not a little perverse pride to the locals.

Which is why Aubrey Singer, managing director of BBC television, and Sir John Mason, director-general of the Meteorological Office, are optimistic that together they can elevate the traditional weather forecast *to new status as a television* prime-time super show.

Something like—Jack Scott in Isobars on Ice? Well, not quite. . . .

Mason's sales package, which is proving attractive to the BBC, is that for comparatively small extra cost on top of the present arrangements for supplying Met Office forecasts the computers can be harnessed to produce a moving picture show of the antics of the wether over the British Isles for two or three days ahead, with a high degree of accuracy.

The computers already churn out a pictorial forecast every 15 minutes. The idea is to photograph the frequent forecasts to make one fast-moving film of the coming weather. That would be preceded by a film of weather developments in the previous 24 hours as seen by the satellites and ground radars.

By using these tricks a comprehensive "before and after" weather film could be televised nightly.

Experimental films have impressed both the Met Office and the BBC.

Mason and Singer believe they can have their new weather show on television by next January if the money is available and extra television screen time can be provided.

Interest has been spurred at the BBC because a new survey by National Opinion Polls shows that people like lots of weather information. Also—and this is surprising—they believe the Met Office forecasts to be accurate most of the time. by National Opinion Polls

"It's called water and you wash in it—remember?"

Eye for assets

Charles Bluhdorn who died at the weekend, aged 56, must rank as one of the great asset spotters of all time.

Starting with a modest auto parts business in the 1950s he built *Gulf and Western Industries* into a $5bn conglomerate with interests ranging from Paramount Pictures, Madison Square Gardens, and Simon and Schuster Publishing, through to vast Dominican sugar estates.

An Austrian by birth, he arrived in the U.S. in 1942. By the end of the decade he had made a fortune as a commodity trader.

In the 1960s takeover boom he appeared to be buying businesses practically every *week and his efforts* were satirised in the Mel Brooks film Silent Movie which featured a company called Engulf and Devour.

Gulf and Western avoided many of the problems which hit other big conglomerates in the 1970s. But Bluhdorn was seldom given a star rating on Wall Street. This was partly the result of a titanic clash with the Securities and Exchange commission which ended in a draw when the federal agency dropped all of its charges of misconduct against Bluhdron.

In recent years, instead of going for outright conrtol of businesses Bluhdron took to *buying significant minority* positions in what he perceived to be undervalued companies.

Under his eye the group built an investment portfolio which is now worth something like $1bn.

What happens to this port*folio—and to the group which* was so closely identified with its founder—will be a matter of intense speculation in coming weeks.

Dangerous waters

Now for the reckoning. David Moreau, a director of the Dewplan group, specialist in water treatment, says that all factories in areas where the authorities have told people to boil water should have a good look at the quality and the flow of their process treatment plants after the fury of the water workers has abated.

Without wishing to be a prophet of doom he forecasts that if plants for boiler feed, for example, are clogged or partly inoperative because of polluted water Britain may resound with the noise of their bursting tubes.

Meanwhile, such sensitive industries as food, drink, medical products, and electronics, may be obliged to put their quality control laboratories on overtime.

Moreau explains that the human digestion has had a million years or so of practice in dealing with such water contamination as minerals, gases, bacteria, and rotting vegetation. The trouble is thta industry has had much less practice, and machinery has not the robust ability of the human system to cope with poor water.

Disaster can, apparently, follow the use of untreated water in factory systems.

Some prescient companies have pre-treatment systems to deal with the worst that the modern water grid can serve up. But they are mainly well-heeled microchip, pharmaceutical, and fod and beverage houses, which cannot afford to take risks. The rest of you—be warned.

In pocket

Geoffrey Howe wants to incul*cate a more responsible British* attitude towards matters financial by training children to manage their pocket money. Or so we are told in yet another claimed leak of Cabinet discussion papers.

I knew a civil servant in the Department of Employment, during Michael Foot's time as Minister, who not only supported Howe's line of thinking but took it to its logical conclusion.

Hardened by countless hours at the negotiating table, facing recalcitrant unions, and haggling over pay awards to the second decimal place, this stern man was prepared to go through it all again with his schoolgirl daughters.

Each spring he required them to file a proper submission for a pocket money increase accompanied by a reasoned set of arguments justifying a rise on the basis of macro economics rather than their girlish whims.

He successfully squeezed inflation out of that sector of his domestic economy. For by the time the third annual pocked money pa yround was due the girls decided it was not worth the hassle and settled for a zero increment.

Observer

UK NORTH SEA SUPPLY INDUSTRY

The orders that aren't there

By Ray Dafter, Energy Editor

HOWARD DORIS builds oil production platforms. Its construction site, carved out of the lower slopes of Scotland's Western Highlands at Loch Kishorn, was designed to turn out the biggest of the concrete structures needed in the North Sea.

But the UK oil industry has stopped ordering these monsters. There are very few, if any, oil fields left which justify such multi-billion-dollar production units.

Recognising the trend Howard Doris has turned its attention to smaller platforms, including the more traditional steel structures (much to the chagrin of the steel platform builders) such as Highland Fabricators, McDermott's, and RGC Offshore. However, UK oil companies are also ordering fewer of these.

The exploitation of new North Sea oil fields has come to a virtual standstill. Platform yards and the myriad of companies which comprise the £3bn-a-year UK offshore supply industry are still at work thanks largely to the overhang of development decisions taken by oil producers at the end of the 1970s and by two more recent gas developments — the Morecambe and Rough fields—being undertaken by British Gas Corporation.

A few oil projects are in the pipeline including Britoil's Clyde oil field and the Total/Elf North Alwyn oil development. But these will be insufficient to maintain the supply industry's workload.

The industry, which has so far largely bucked the recession which has plagued much of Britain's manufacturing industry, has pleaded with oil companies to begin exploiting new oil fields.

There are several reasons why oil companies are sitting on potentially commercial fields in the North Sea. They are worried about the way falling oil prices could undermine the economics of high-cost North Sea development. It can cost up to $20 a barrel just to produce oil from some of the newer fields, irrespective of taxation and profit considerations.

In the same vein, companies are looking into ways of extracting North Sea oil more cheaply, perhaps through the use of seabed production systems or relatively small floating platforms. Most publicly, however, the oil industry is calling for a reduction in offshore taxation which—with a top marginal rate of almost 90 per cent of net revenues—is regarded as punitive in the light of falling oil prices and expensive, small developments.

Oil companies seemed determined to sit tight until they win significant tax relief. Sir Geoffrey Howe, Chancellor of the Exchequer, is expected to make some concessions in next month's Budget. Whether they will be sufficient to trigger a rush of new development remains very much in doubt.

This is why Mr Albert Granville, managing director of Howard Doris, and other platform constructors have been flying to offshore production areas in India, Africa and the Far East seeking export contracts to supplement the dwindling UK order books.

Within the next few weeks, for instance, Howard Doris will join together the deck and base structures of Phillips Petroleum's Maureen production platform. It will be a unique operation, the first time that a fully equipped deck — a 19,000 tonnes drilling / production unit — will have been mated with a platform support structure. But it will leave Loch Kishorn woefully short of work — just a small shallow-water steel platform and deck.

There are yards in a worse position. Ayrshire Marine Construction at Hunterston on the Clyde has been without work since the beginning of the 40,000 tonne base for the Maureen Field platform. The workforce has been pared down from 1,200 to about 60. Significantly those still on the site are adapting the fabrication facilities to make them more suitable for smaller projects.

The other three main yards—Highland Fabricators at Nigg Bay, McDermott of Ardersier and RGC Offshore at Methil—can expect to remain busy only until this summer, judging by the current state of the order books.

"The picture is grim," commented Sydney Fudge, managing director of RGC. "There are some oil field projects which could be resurrected quickly but we all need a stimulus of some sort. Without this stimulus some of us are going to disappear very shortly and the Government is going to be left without its own in-house offshore industry."

It is not only the platform fabricators which are threatened. The 15 or so yards which assemble prefabricated production drilling and accommodation units—modules weighing up to 2,500 tonnes and costing as much as £8m apiece—are also seeing their orders dry up. According to the UK Module Constructors Association the workload of yards, now at about two-thirds of capacity, could fall to about 35 per cent of capacity by the end of the year "unless something unexpected comes along."

"We will have to sharpen our pencils and spread our net wider," said John Bolt, the Association's chairman. "We will have to look elsewhere for work—overseas and in other sectors. But we have proved in the past we are a great bunch of survivors."

All told there are probably well over 100,000 involved, directly and indirectly, in providing equipment and services to the UK offshore oil and gas industry. Many companies are subsidiaries of American groups, the traditional suppliers to the U.S.-orientated oil industry. The North Sea has generated many thousands of new jobs, but there has been a striking shortage of British entrepreneurs. Some have emerged in the last decade, but not enough to please the Government.

Indeed, it was for this very reason that ministers included a new condition in the terms of reference for the latest, eighth round of North Sea licences. Oil company applicants for drilling blocks, now making their submissions to the Energy Department, must demonstrate their willingness to support and nurture UK technology—although there are obstacles—entry costs are high, the American companies have a long lead and oil companies tend to stick to proven suppliers.

No one knows for certain how many of these jobs are disappearing although some indication is provided by official figures for the industrial plant and steelwork sector of British engineering. Here employment has fallen by over 27 per cent in the past three years; from 154,000 to 112,000.

The process plant industry which, in recent years, has viewed North Sea oil development as one of its very few buoyant markets, has sided with the oil companies in calling for a North Sea tax reduction. In a recent submission to the Chancellor, the Process Plant Association claimed that for every £500m additional expenditure on North Sea, some 25,000 to 30,000 jobs a year would be created. (Coincidentally, Mobil last week announced a £20m offshore contract which is expected to create 1,000 jobs for a year—the same ratio as applied by the Process Plant Association).

In its calculations the Association assumed that UK companies would continue to win about 70 per cent of the value of orders placed by oil operators in the British sector of the North Sea. A government body—the Offshore Supplies Office—acts as a watchdog and conscience pricker to ensure that oil groups give UK companies the fullest opportunity to compete for domestic orders. But even the OSO accepts that it would be very difficult for the UK offshore supply industry to increase its share, given its lack of competence in some key areas, such as pipelaying.

UK oil production is now running at about 2.2m barrels a day, close to the expected peak, thanks to a £80bn investment programme over the past decade or so. However, within the next three years the rate of output will begin to decline. "It is already too late to stop this happening," John Raisman, chairman and chief executive of Shell UK, told the Coal Industry Society earlier this month.

Industry estimates, as seen by stock brokers Phillips and Drew, suggest that UK production could be down to 1.4m b/d by 1990, even allowing for the development of some small new fields. The brokers reckon that Government revenue from North Sea oil could fall from a peak of £10bn in 1983-84 to just £6.6bn (in real terms) by 1990-91.

Changes in North Sea taxation should help to stimulate new development, especially if they are designed to benefit small, economically marginal fields. Mr Raisman says that the Government must make the choice between "maximising short-term revenues or forgoing a part, however modest, of these revenues to create the incentive for further investment." Judging by Whitehall vibrations, ministers have taken the message on board.

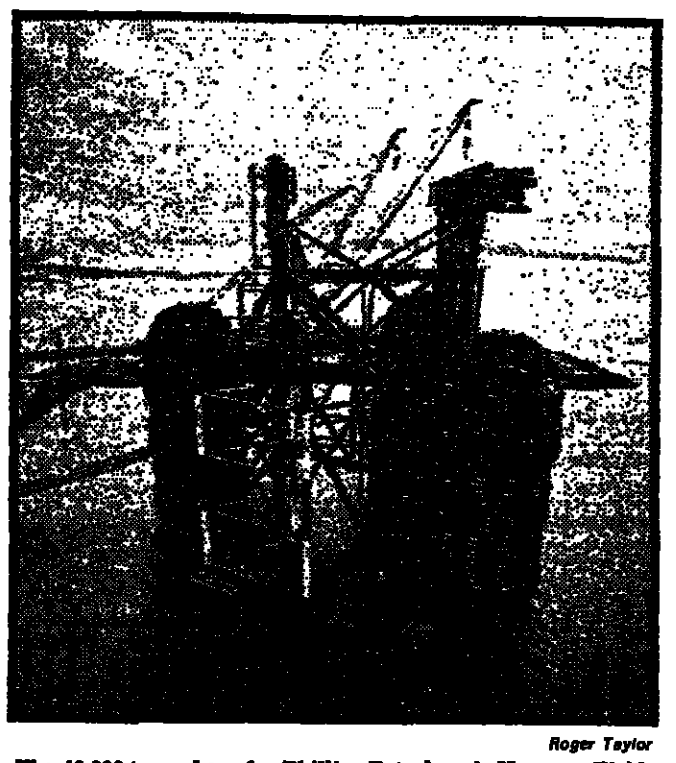
But tax cuts alone are unlikely to restore full activity to offshore operators and the supply industry.

Just as important is a need for oil companies to find new, cheaper ways of exploiting North Sea reserves. These innovations are likely to change the character of the offshore supply industry, especially those yards capable of building the biggest platforms. They might well demonstrate that there are too many fabrication yards capable of building platforms and modules.

In general, however, there has been a reluctance on the part of many oil companies to experiment with new production methods. They take the view that they have enough risks to carry — reservoir uncertainties, falling oil prices and changing tax structures — without having to worry about whether or not an untried production system will work.

This attitude may contribute to the undoing of the North Sea industry and its suppliers. For as Mr Michael Butterfield, consultants Keplinger and Associates (UK) points out: "Our biggest danger is that we have become too sophisticated in the past 10 to 15 years.

"The UK industry needs a new face, a change of technology," said Mr Butterfield. "With our experience we should be able to crack the problem of developing the smaller, marginal fields.



Roger Taylor

The 40,000-tonne base for Phillips Petroleum's Maureen Field platform completed at Hunterston last November

There are very few, if any, fields left which justify such multi-billion-dollar monsters

Lombard

Futile quest for balanced budget

By Samuel Brittan

IT LOOKS as if the British Government is well ahead of schedule in its plan for a phased reduction of the Public Sector Borrowing Requirement (PSBR). According to some guesses it will be down to about £7bn or 2½ per cent of the Gross Domestic Product in the financial year 1982-83. This is actually less than was originally planned for 1983-84 in the Medium Term Financial Strategy and not much above the 2 per cent envisaged for 1984-85.

Why not, it is tempting to ask, complete the process as soon as possible and go for a zero PSBR or "balanced budget"? Then the strategy will be at last simple and comprehensible, and reduced public borrowing will open the way to a lower average level of real interest rates.

Unfortunately this attractive-sounding notion is a mirage. In Gladstone's time, when there was little public capital expenditure and no embedded inflation for which to adjust, a "balanced budget" had some meaning. But today, one would have to ask a budget-balancer: "Which of the many dozens of possible balances would you like to see at zero?"

Business cycle

These are not petty quibbles over small magnitudes. Let us suppose that we allow for the state of the business cycle and accept deficits in years of recession in the hope of recouping them in time of boom? The size of the cyclical adjustment is very sensitive to judgements about what is a "normal" rate of activity and employment. The Simons and Coates adjustment, which is far more modest than some, as it takes as base the year 1979 when unemployment was nearly 1¼m, shows that on a cyclically-adjusted basis there was no deficit, but an overall surplus repayment of more than £4½bn.

Another adjustment, involving less "theory," is for inflation. When prices rise the real value of government debt falls. This is similar to the "gearing" adjustment advocated for company accounts. The adjustment increases the overall public surplus to about £12bn.

But that is not the end of the matter. The most respectable people argue that public capital expenditure, designed to improve the physical and social "infrastructure," can be legitimately financed from borrowing. Taking the three adjustments together, the current budget surplus works out at £26bn to £30bn or 10 per cent of GNP. Any one of the adjustments alone would be enough to turn the PSBR into surplus.

Monetary policy

Thus pressing for a "balanced budget," so far from helping the "sound money" cause, will merely bring forth a spate of learned calculations to show how violently the Government has overbalanced its accounts. When officials reply, the discussion will get diverted into a futile scholastic argument about whether the budget is "really" in surplus or deficit. The much more important, but admittedly difficult, question is whether the combined stance of fiscal and monetary policy—by whatever measure we choose to use—is likely to provide a stable upward path of national income and expenditure sufficient to sustain a non - inflationary growth.

If non-inflationary growth of monetary demand were found to involve serious budget deficits over the very long term, it would be a *prima facie* sign that excess savings were being used for consumption, and it would be sensible to change the policy mix towards lower interest rates, in the hope of promoting investment at home or—via the medium of a lower exchange rate—overseas.

But even if one is sceptical of the cyclical and inflation adjustments and doubtful about how much of the £15bn of public investment is producing a return, it is extremely difficult to argue that public savings are anything but positive. Thus the problem of structural deficits does not arise in Britain at the present time, in sharp contrast to the U.S.

Letters to the Editor

An opportunity for United Nations in Cyprus

From Mr C. Economides

Sir,—The problem of Cyprus (Leader, February 16) can only be solved by a fair mutual compromise, which could be arrived at only with some outside help. In this connection, I suggest the following:—

Mr Perez de Cuellar, the UN secretary-general, who has been dealing with the problem of Cyprus for many years and knows better than anybody else all aspects of the problem as well as the views of both sides, should prepare and submit to the parties an overall package-deal scheme which, in his impartial opinion, would satisfy in a fair way the "fundamental and legitimate rights" of both communities.

At the same time, he should ask permanent members of the Security Council and others to use their influence directly and indirectly on Ankara, Athens and Nicosia to accept the proposed scheme as the best, and perhaps unique, chance to solve peacefully this potentially explosive problem.

As the secretary-general's fair compromise scheme will necessarily entail some unpalatable concessions on both sides, it would be better if responsibility for accepting the proposed scheme were shifted from the shoulders of the leaders to those of the people of the two communities, by submitting the scheme to separate referenda under the supervision of the UN, provided that the leaders could be persuaded to adopt a favourable attitude towards the scheme.

I hope that the British Government, which has by a binding treaty guaranteed the independence and territorial integrity of the Cyprus republic, will support this procedure.

Chris Economides,
Economides Centre for
Economic and Political
Research.
P.O. Box 1632, Nicosia, Cyprus.

A consensus for urban renewal

From the Director General, British Aggregate Construction Materials Industries

Sir,—Government investment is now one third of the level it was 10 years ago. This is rightly described as "catastrophic" and "short-sighted" (Lombard, Feb 14). The Government has not only continued its predecessor's investment failure: it has accelerated cuts. It took the last Labour Government six years to cut investment by just under 40 per cent. It has taken this Government only three years to cut it by over 40 per cent.

The contrast between government actions and declarations is striking. For example, in October 1982 Mrs Thatcher said "We are in the business of planting trees for our children and grandchildren, or we have no business to be in politics at all." In 1977, Sir Geoffrey Howe declared "You can literally see the dangerous extent to which we have been living off the industrial and social capital that was accumulated by earlier generations — and failing to amass our own. Resources have been diverted to maintain consumer living standards today. But no seed corn has been saved for tomorrow."

What is now needed is for the Government to put its declarations into effect. The Treasury and Civil Service Select Committee has been gratifyingly consistent in its criticisms of the fall in investment and the seemingly ineradicable underspending of capital budgets, low though they already are. The last Budget provided a 14 per cent boost in public construction spending in 1982-83. The reality was a six per cent rise, barely covering inflation, most of which only resulted because of a last-minute boost in improvement grants, little of which finds its way into the construction industry proper.

Future generations might be struck by the failure of this Government — notably successful though it has been in restructuring aspects of the British economy — to lay the ground for sustained economic growth by modernising our economic and social infrastructure. It is not too late for some of this ground to be made up. There is a broad consensus for urban renewal, road network improvement, better schools and hospitals. There is nothing to stop a determined Government from rectifying the enforced neglect of the past decade; the 1983 expenditure white paper with its planned 12 per cent boost in capital spending, is an encouraging first step in this direction.

Robert Phillipson.
25, Lower Belgrave Street, SW1

Stimulating local economies

From Mr D. Milne

Sir,—Hubert Scholes (February 9) suggested that local communities should be given the chance to stimulate their own economies and have a share of the Industry Act resources of the Department of Industry.

Through the existing enterprise agencies, local employers in partnership with their local authorities are now making a significant contribution to job creation by helping new ventures and developing small and medium sized firms. These agencies provide sympathetic, disinterested professional advice and their role would be transformed, not necessarily for the better, if they had grant and loan giving powers. There will soon be 90 agencies and in time they could form a network covering most or all of the country. They enjoy statutory status under Section 46 of last year's Finance Act; a standing not yet extended to Chambers of Commerce.

In the United States, joint public/private community partnerships have made a considerable contribution to urban regeneration in many cities. And in West Germany Chambers of Commerce working with their city councils have also shown how economic development can be stimulated by local action. It is a pity that the local taxation and rate support grant systems in this country with their emphasis on equalisation remove a useful incentive for local investment. If local authorities could calculate how redevelopment would generate new finance for favoured projects of their own, then investors and developers would find a more encouraging regime in which to work. At present there is no obvious financial benefit to a local community from allowing change to take place.

There are other ways of encouraging business skills to be more readily provided to help local economic and social development. It would, for example, be possible to extend the present scope of the statutory recognition to enterprise agencies or community partnerships for each district locality so that contributions from companies could be applied for any purpose intended to improve the well-being of the local community. These contributions could be claimable against corporation tax liability. To limit alarm in the Inland Revenue, company contributions might be limited to within a given percentage of pre-tax profits.

D. G. Milne.
Business in the Community.
91, Waterloo Road, SE1.

Co-ordinating role for the IMF

From Mr G. Pack

Sir,—Anatole Kaletsky's article on the International Monetary Fund meeting in Washington (February 7), questions the need for the fund to have a broader role in the solution of the sovereign debt problem.

There is little doubt that the proposed increase in members' quotas will provide valuable breathing space. A more radical approach, however, will be required in the long term if the IMF is to be able to succeed in its task.

The recent refinancing and new money packages put up by commercial banks for Argentina, Mexico, Brazil and elsewhere demonstrate a recognition by both the banks and the IMF of their inter-dependence, but there needs to be much closer co-ordination between the IMF and other multilateral institutions if the framework is to be set for a meaningful long term solution.

In the case of Latin America, nearly every country will be reducing substantially its 1983 import bill, either through devaluation and tighter fiscal policies or, more generally, through increased tariffs and other protectionist measures. At the same time, as is only too well known, protectionist measures are increasing in industrialised countries. It is unlikely that the growth in world trade will be sufficient to generate the demand for borrowing countries' exports, upon which the IMF places heavy emphasis in its conditionality programme.

There are existing institutions which provide the machinery for specific problems. The recent intervention of the Federal Reserve Bank and the Bank for International Settlements is evidence of this point. To date, however, these institutions have intervened on an ad hoc basis and without any sense of co-ordination. Such a co-ordinating role could be ascribed to the IMF.

Late last year Donald Regan spoke of the need for another "Bretton Woods" conference but his suggestion seems largely to have gone unheeded. The suggestion was a good one. The IMF's role needs to be re-examined and its functions broadened, with a specific purpose given to it of co-ordinating not only the various sources of official and private finance, but also those bodies whose role it is to promote world trade and development.

Geoffrey N. Pack.
62 Mountain Peak Road,
Chappaqua,
NY 10514, U.S.A.

FINANCIAL TIMES

Monday February 21 1983

Victory for Labor in Western Australia election

By Michael Thompson-Noel in Sydney

THE AUSTRALIAN Labor Party scored a resounding victory in Saturday's state election in Western Australia, and on present form is poised to win the general election on March 5.

The swing to Labor in the west was an estimated 7 to 8 per cent, giving it a majority of up to 11 seats. Last night, with five results still to come, Labor had 30 seats, a gain of seven. The Liberal-National Party coalition had 20 and the National Party two.

Mr Brian Burke, the 35-year-old leader of the Western Australian Labor Party, said the result indicated a runaway Labor victory in the general election.

In a telephone conversation with Mr Bob Hawke, the federal Labor leader, Mr Burke said at least four government-held seats in Western Australia would fall to Labor on March 5.

With the general election campaign at mid-point, the Hawke bandwagon is still gaining momentum.

Mr Hawke has enjoyed a smooth run to date, scoring heavily on the key issue of unemployment. Though his policy arguments have lacked detail, his broad theme of national reconciliation allied to the promise of tax cuts and a prices and incomes accord with the unions – has proved extraordinarily effective.

In contrast the performance of the Liberals has been painfully lacklustre, with Mr Malcolm Fraser the Prime Minister, consistently outmanoeuvred by Mr Hawke.

The Labor leader was campaigning in Griffith, New South Wales yesterday, where he outlined the party's rural policy. In Melbourne today Mr Hawke is expected to unveil Labor's prices and incomes agreement with the Australian Council of Trade Unions.

Also in Melbourne Mr Fraser attended a church memorial service for the victims of last week's bushfires in Victoria and South Australia, before flying to Townsville, Queensland, last night.

He said he was still confident of general election success, despite the setback in Western Australia.

The Liberals are expected to change tack now, and launch a desperate assault on Labor's credibility. The Liberals' own lack of policy initiatives is costing them dearly, however.

Reagan ties Greek aid to agreement on bases

BY VICTOR WALKER IN ATHENS

PRESIDENT RONALD REAGAN has informed the Greek Government that if it wants more U.S. military aid, to offset higher amounts proposed for Turkey, it will have to reach an agreement with Washington covering the future status and operation of U.S. military bases in Greece.

Mr Reagan made that clear in a letter to the Socialist Prime Minister, Dr. Andreas Papandreou, published at the weekend without government comment. The letter was in reply to one from Dr. Papandreou early this month warning of "unpredictable consequences" if higher U.S. aid to Turkey resulted in a disturbance of the balance of military power in the Aegean.

The exchange of letters followed publication of Mr Reagan's proposed budget for the 1984 fiscal year, which provided for a sharp increase in aid to Turkey while aid to Greece would stay at the same level as in 1983. If Congress approves, Turkey will receive $755m in military aid against $400m this year, in addition to $175m in economic assistance. Military aid to Greece is to remain at $280m.

This would upset the 7-to-10 ratio in military aid to Greece and Turkey respectively observed by the U.S. since 1977. The Greek Government is now asking that the ratio should apply not simply to military aid as in the past but to the total of military and economic aid. Since Greece receives no economic aid, military aid in 1984 would presumably have to be more than doubled – to $650m – to preserve the ratio in terms of the total $930m proposed for Turkey.

In his letter to the U.S. President, Dr. Papandreou said the proposed higher level of aid to Turkey had caused "grave concern to the people of Greece."

Referring to the negotiations on a new Defence and Economic Cooperation Agreement (DECA), concerning the future of the four main U.S. bases in Greece and several back-up installations, Dr. Papandreou said "a basic Greek condition for arrival at a mutually acceptable agreement" was that the balance of military forces in the region should be preserved both qualitatively and quantitatively.

In his reply, President Reagan said his Administration would request additional aid for Greece in the framework of a successful outcome of the bases negotiations. A new agreement on Greek-U.S. defence relations must be in the interests of both countries, he told the Greek Premier, and this was the aim of the negotiations. "In this framework, my Government will request an increased level of defence aid to Greece, higher than that in the current programme."

The bases negotiations are currently in recess, awaiting the return of the U.S. negotiator, Mr Reginald Bartholomew, from consultations in Washington. They are expected to resume towards the end of this month or early in March.

The Greek Government, which insists that the bases serve only U.S. and not Greek or even Nato interests, has linked an eventual agreement with sufficient U.S. military aid, in high-technology weaponry, to make Greece impregnable against what it regards as a permanent threat from Turkey.

Dr Papandreou said last week that he was still hopeful that an agreement would be reached.

Although the Greek Prime Minister has ruled out what he calls unilateral action in removing the bases, he remains committed to securing a timetable for their eventual withdrawal.

Dr Andreas Papandreou

British Labour Party officials back Foot

By Margaret Van Hattem

SENIOR UK Labour Party officials rallied behind their leader Mr Michael Foot at the weekend as he reaffirmed his determination to lead the party into the next general election.

However, most Shadow Cabinet members appear to be trying to avoid the public spotlight during this latest wave of speculation over a possible leadership crisis.

Only Mr Denis Healey, deputy leader, has so far placed his comments on the record. Speaking on London's Weekend World television programme yesterday, he pointed out that none of his supporters were involved in the "grumbling about Mr Foot," and reaffirmed his loyalty to Mr Foot.

Earlier, Mr Sam McCluskie, party chairman, and Mr Jim Mortimer, general secretary, expressed their confidence that Mr Foot would lead the party into the next election. Any speculation to the contrary was mischievous invention on the part of the Press and had no foundation in the Labour movement, they said.

Despite increasing tension and unhappiness within the party over its and Mr Foot's poor standing in the opinion polls, the difficulties of replacing him as leader appear to have convinced most of his critics within the party of the futility of provoking a crisis.

Many senior Labour MPs are increasingly pessimistic about the next election and believe Mr Foot's poor public image is at least partly to blame. But the prospect of another divisive leadership contest is widely held to be greater of the two evils.

The main concerns are the lack of consensus over a possible successor to Mr Foot and the considerable ambitions of the leading contenders. "There are no kingmakers – only a lot of would-be kings," one veteran Labour MP said last week.

Some of Mr Foot's most loyal supporters believe he would resign if close friends in the party urged him to do so, and if he felt a damaging contest could be avoided.

Even the procedural difficulties of recalling the electoral college could be overcome, they suggest, if there was a clear successor. Some say it is mainly because there is no clear successor that no one has yet asked Mr Foot to stand down.

Despite some speculation to the contrary, Mr James Callaghan, the former Prime Minister, and Mr Denis Healy are generally regarded as hors de combat. The combination considered most likely to succeed would be Mr Peter Shore supported by a left-wing deputy. But it is unlikely that Mr Roy Hattersley or Mr Tony Benn would make way for Mr Shore.

The results of this week's by-election in Bermondsey south London, are unlikely to affect this deadlock in the short term. Even a low majority is unlikely to shock the Parliamentary Party out of its present debility.

Britain set to name system for radiotelephone network

BY GUY DE JONQUIERES

THE UK GOVERNMENT is expected to announce today its long-awaited decision on the type of cellular mobile radio system to be used in Britain's two planned radiotelephone networks.

Its choice of system, code-named TACS, is believed to be loosely based on AMPS, the cellular radio standard in force in the U.S. – but modified to suit conditions in Europe. It is also said to be technically more advanced than AMPS.

The decision has important implications, not only for the operators of the two networks but also for UK equipment manufacturers. It could also influence prospects for industrial cooperation with other European manufacturers.

Most European countries plan to introduce cellular radio networks soon, and equipment sales are valued at at least $1.5bn during the rest of this decade. Cellular radio, which divides an area into computer-controlled "cells", vastly expands the capacity of mobile radio networks by using frequencies more efficiently.

It is hoped in London that Britain's choice of system will also be adopted by France, with which there have been extensive consultations in recent months. French telecommunications manufacturers, notably CIT Alcatel, are believed to view the UK decision favourably, but government authorities are split.

While the French Industry Ministry appears to side with the manufacturers, the Post Office wants to join forces with Germany, where Siemens has developed its own system, C-900, which is likely to be adopted by the Bundespost.

One important factor which could weigh in Siemens' favour is the possibility that Germany would agree to adopt the technical standards developed by France for its planned Telecom 1 satellite communications service if France used the German cellular radio system.

The two groups have been licensed in Britain to operate cellular radio systems. One, Sectel, is a joint venture between British Telecom and Securicor, the security services company, while the other is a private consortium headed by Racal Electronics. Both services are due to start in 1985.

British Telecom has favoured various systems at different times in the past few months. These have included the American AMPS, the NMT system currently in use in the four Nordic countries and, most recently, a design called Mats-E developed jointly by CIT Alcatel and the Dutch Philips group.

Reaching a decision has been difficult, both because there is no system currently in use which exactly meets Britain's requirements and because discussions have been influenced by political and industrial considerations.

THE LEX COLUMN

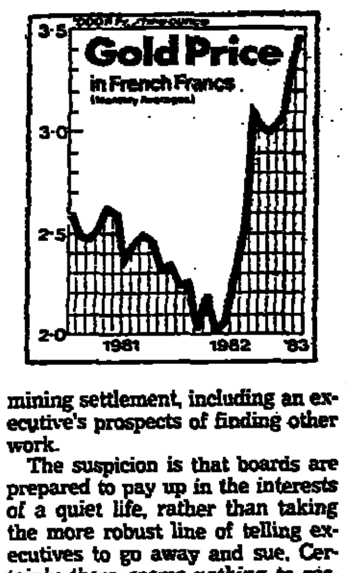
Tighter grip on the golden handshake

The institutions are closing ranks behind the Post Office pension fund's crusade against high compensation payments to departing company executives. Their concern has been prompted by the series of publicly-staged battles over golden handshakes that has taken place in the last couple of years. The Post Office pension fund, under Mr Ralph Quartano, established its concern last year when it launched a legal challenge to ACC's proposed £560,000 pay-out to Mr Jack Gill. The more recent controversy over the pay-out by Letraset to Mr Bill Fieldhouse, and his service contract with Carrington Viyella, has spurred other institutions to formulate a policy in this area.

The issues of service contracts and compensation payments are closely linked, if only because many companies have opted to establish the size of the pay-off multiplying annual salary by the number of years a contract has left to run. Some institutions argue that service contracts provide little of benefit to companies. In practice a contract cannot be used to keep an executive who wants to leave. And they can be something of a double-edged sword for executives, especially if the details emerge in the press. Certainly, Mr Fieldhouse resigned his executive positions in Carrington Viyella with great speed after the row about his contract.

The 1980 Companies Act introduced a provision requiring companies to obtain shareholders' consent for contracts extending beyond five years. The spirit of this legislation has been stretched to the limit by the use of rolling contracts whereby the five-year safety net is pushed ahead for the full period each year. The possibility of maintaining a register of service contracts is being examined by the funds, as one way of constraining boards from agreeing over-generous terms. However, since the contract terms are usually available on request, the additional impact of such a register might be minimal.

On compensation payments the atmosphere has changed markedly over the last year, and many companies are already consulting their institutional shareholders before agreeing compensation terms. Nevertheless many of the pay-offs now emerging in company reports, as a result of the 1980 disclosure requirements, are felt to be over-generous. Certainly in many instances the figures dwarf what a court would award. In case law there are a series of factors critical in determining settlement, including an executive's prospects of finding other work.



The suspicion is that boards are prepared to pay up in the interests of a quiet life, rather than taking the more robust line of telling executives to go away and sue. Certainly there seems nothing to recommend a board's supine attitude when the true reason for an executive's departure is poor performance.

In practice little has prevented boards making pay-offs based on multiples of annual salary. Under the 1948 Companies Act shareholder approval is necessary in principle, but the requirement is shelved if the payment represents a bona fide estimate of damages. In most cases Boards have found little difficulty in obtaining a "bona fide" rubber stamp from a lawyer.

The 1980 disclosure provisions are clearly acting as some deterrent. Yet the institutions believe that their impact is defused by the time-span between the actual payoff and revelation in the directors' report, possibly a year and more later. A more effective remedy would be a requirement for companies to report as soon as they consider making a pay-off. Possibly this could be done as a formal Stock Exchange statement. An alternative approach, requiring legislation, might call for approval from shareholders at an EGM. Another form of safeguard might be the institution of salary committees, made up of non-executive directors, which would be responsible directly to shareholders.

Gold bond

France's Socialist Administration must be watching the gold price's giddy progress with a mixture of horror and smug satisfaction. The national debt is saddled at the moment with an enormously expensive gold-linked bond, so each upward tick on the gold exchange means a further servicing burden for a fully-stretched budget. Yet the worse the problem becomes, the more it cuts the ground from under the opposition's attacks on Left-wing profligacy, for the bond was launched by none other than ex-President Valéry Giscard d'Estaing in his days as Finance Minister 10 year ago.

Interest payments on the issue, which raised FFr 6.5bn, and is familiarly known as the "Giscard" on the Paris Bourse, have already amounted to about FFr 18bn. Both interest payments and the redemption price move in ratio to the base price of gold in a reference period in 1973, so payments follow the rise and fall of the Paris bullion market.

Investment in the bond is analagous to buying a gold mine share. Just as the share investor locks himself into a stream of dividends which depends on mining profits, the bond buyer receives interest payments equally tightly related to the gold price.

According to the James Capel gold share model, which calculates future income on the basis of the current gold price, the recent rate of return on the Giscard bond with gold at $500 an ounce amounts to 9.6 per cent. This comfortably outperforms the average South African mine, so on the face of it, investors ought to be flocking into the bond. In fact, the bond is saddled with a virtually permanent discount to its theoretical market value, mainly because French investors – the bond has not yet sparked much overseas interest – have a lingering fear that the Government might renege on its commitment to redeem the issue at a gold-backed price. The discount widened notably, for example, just before the 1981 Presidential elections, when the Left was making full political capital out of the Giscardian "blunder."

The volatility of the discount, which also tends to widen abruptly when the gold price rises rapidly, clearly brings another element into investment decisions. In a recent paper on the bond, Phillips and Drew argues that the discount will remain right to the end. What will happen then is a subject of much intrigued speculation. Redemption is likely to fall just before the next Presidential election in 1988, leaving President Mitterrand with a nice decision between making a gesture to his right or his left – or straight down the middle.

IMF Brazilian debt package to go ahead

Continued from Page 1

For its part, the IMF is understood to feel that while the situation is still not satisfactory, it has improved markedly over the past two weeks. The IMF has helped orchestrate the commercial bank rescue package for Brazil in tandem with its own plans to lend that country a total of some $6bn. Brazil's debt problems have been seriously aggravated by withdrawals of deposits from its banks abroad. This has also affected banks of other Latin American countries since Mexican banks were nationalised last August.

Sr Carlos Langoni, Brazil's central bank governor, said on Friday that the IMF would give its approval to the loans next Monday.

In a surprise announcement on Friday night, Brazil's Central Bank said it was adjusting the value of the cruzeiro downwards by 30 per cent against the U.S. dollar – equivalent to a devaluation of 23 per cent – to "accelerate the adjustment of the external accounts in the face of the international crisis."

The new purchase rate is 381.44 cruzeiros to the dollar compared with 293.41 last Friday.

An equivalent export tax is to be applied today on the country's important primary product exports, notably iron ore, coffee, soya and sugar, to protect their market price.

The Government says it will also introduce other "complementary" measures to compensate for some of the side effects of the devaluation, the largest since December 1979. These measures are expected to include the reintroduction of price controls on a wide range of items and a reduction in taxes on financial transactions and on many imports.

Initial Brazilian reactions to the devaluation have been mixed. Concern has focussed on the damaging impact it will have on the balance sheets of already heavily indebted private and state companies, encouraged by the Government to borrow abroad rather than at home over the past 18 months.

The last major devaluation of the cruzeiro, also by 23 per cent, was widely regarded to have been an error, even by the present Government. Inflation shot to 120 per cent within months and the desired boost to exports did not materialise.

UK water workers study inquiry report

BY PHILIP BASSETT IN LONDON

WATER EMPLOYERS and unions representing 28,000 manual workers in the UK supply and sewerage industry who are entering the fifth week of their strike today, last night began to study the final report of the committee of inquiry into the dispute.

Union leaders told privately of the inquiry's findings before they were disclosed more widely, were believed to be guardedly optimistic about the outcome.

The three-man inquiry, comprising Dr Tom Johnston, Principal of Heriot-Watt University, Mr Bill Keys joint general secretary of the print union, Sogat 82, and Mr Michael Bett, industrial relations board member for British Telecom, completed their report last night after a lengthy and often fractious weekend of near-continuous sessions.

All sides involved in the inquiry, which was set up under the auspices of the Advisory, Conciliation and Arbitration Service, were careful throughout the day not to reveal anything of its workings or thoughts, though for most of the day both the unions and the employers, the National Water Council, were kept waiting in ignorance of the committee's deliberations.

The inquiry members insisted during the session, though, that nothing was to be excluded from their examination of the complex issues lying behind the dispute. While union officials attending the talks took this as a positive sign, in that the whole area of the water workers' relative earnings position could be discussed, and not just the employers' offer of 7.3 per cent over 16 months, they recognised that such a wide-ranging examination could make any objection to the findings even more impracticable.

Dr Johnston himself was particularly keen not to disclose anything of the thinking, and most of the questioning of both sides was carried out by the two side members. In the inquiry's final stages last night Mr Bert kept up close contact with the employers and Mr Keys with the unions as they tried to move towards unanimity.

In evidence to the inquiry water employers recognised the need to keep water workers' pay broadly in line with inflation and earnings in the rest of the economy but still rejected the unions' claims.

Opec price war likely after Nigerian cuts

Continued from Page 1

Saudi Arabia's position will rapidly become more acute if other African producers, especially Libya, now offer larger discounts to protect their share of the market.

In deciding on the size of their price reductions the Gulf states will be acutely aware of Nigeria's threat not to be undercut. Mr Yahaya Dikko, the Presidential adviser on Petroleum and Energy, said in Lagos yesterday that other producers should react responsibly to Nigeria's move which had been forced by the British cuts.

Industry officials stressed however that Nigeria was determined not to permit Saudi Arabia "to have its own way on differentials." It was also argued that the 50-cent advantage that Nigeria now enjoys over the Forties and Brent crude from the North Sea was justified because of Nigeria's distance from its principal markets.

Mr Dikko called yesterday for a fresh meeting of Opec and for talks to be held with non-Opec producers on long-term pricing and production policy. "It needs to be reiterated that the restoration of stability and the defence of crude oil markets is a responsibility for both Opec and non-Opec members alike. Both groups stand to gain by responsible action," he said.

Nigeria's production levels have fallen this month to below 800,000 b/d, compared with a peak of 2m b/d in 1980, forcing a series of cutbacks to the development programme.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	10	50	Dubrovnik	F	6	43	Malaga	C	7	45	Salzburg	S	0	32
Akrotiri	C	5	41	Faro	C	15	59	Malta	S	14	57	Seoul	S	-5	23
Algiers	F	15	59	Florence	C	7	45	Manila	-	—	—	Singapore	-	—	—
Amsterdam	C	4	39	Frankfurt	C	1	34	Miami	F	20	68	Stockholm	F	0	32
Athens	S	5	41	Funchal	F	19	66	Milan	C	3	37	Strasbourg	F	3	37
Bahrain	S	22	72	Geneva	F	7	45	Moscow	C	-5	23	Sydney	C	24	75
Bangkok	-	—	—	Gibraltar	C	14	57	Munich	S	-1	30	Taipei	-	—	—
Barcelona	S	13	55	Guernsey	F	6	43	Nairobi	F	26	79	Tangier	C	15	59
Beirut	R	7	45	Helsinki	S	-1	30	Naples	F	11	52	Tehran	-	—	—
Belgrade	F	2	36	H. Kong	R	15	59	New Delhi	-	—	—	Tel Aviv	R	12	54
Berlin	C	2	36	Innsbruck	S	2	36	New York	-	—	—	Tenerife	F	20	68
Biarritz	F	15	59	Inverness	C	1	34	Nice	S	12	54	Tokyo	S	9	48
Blackpool	C	1	34	Istanbul	S	-2	28	Oporto	C	13	55	Toronto	F	-3	27
Bordeaux	S	11	52	Jersey	F	6	43	Oslo	S	1	34	Tunis	F	13	55
Brussels	F	2	36	Jo'burg	-	—	—	Paris	S	1	34	Valencia	F	11	52
Budapest	F	3	37	Las Palmas	S	21	70	Prague	C	0	32	Venice	S	5	41
B. Aires	-	—	—	Lima	-	—	—	Reykjavik	C	2	36	Vienna	S	0	32
Cairo	S	14	57	Lisbon	C	11	52	Rio de J'o	-	—	—	Warsaw	C	0	32
Cape Town	S	29	84	Locarno	C	3	37	Rome	C	10	50	Zurich	C	-4	25
Caracas	-	—	—	London	C	3	37								
Casablanca	R	17	63	Los Angeles	S	11	52								
Copenhagen	C	1	34	Luxembourg	C	0	32								
Corfu	F	8	46	Madrid	C	8	46								
Dublin	R	3	37	Majorca	C	12	54								

Readings at mid-day yesterday:

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Vogel plea to Reagan

Continued from Page 1

Nato as a counterbalance should the Geneva talks fail, "superfluous." In the interview, Herr Vogel admitted that his "clear first option" was to avoid having to accept the West German share of the U.S. missiles, 96 cruise and 108 Pershing-2 systems.

President Reagan said at a press conference last week in Washington that it would be "a terrible setback to the cause of peace and disarmament" should a new West German Government refuse to station the new missiles.

Speaking confident and adventurous English, Herr Vogel said that the Soviet offer did not go far enough and clarification was needed on whether Moscow would dismantle the "reduced" systems or merely shift them out of range, and on whether warheads, not simply launchers, could be balanced. This last point is important because the 220 or so Soviet SS-20 missiles in the European theatre have three independent warheads.

But asked how radical the Soviet reduction would have to be, Herr Vogel referred to the French and British systems.

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by G.T.S. Damer, Frankfurt/Main, A.V. Hare, R.A.F. McClean, M.C. Gorman, B.A. Lawrence, D.E.P. Palmer, London, as members of the Board of Directors. Printer: Frankfurter Societäts-Druckerei GmbH, Frankfurt/Main. Responsible editor: C. E. P. Smith, Frankfurt/Main.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday February 21 1983

INTERNATIONAL CREDITS

French hybrid shows growing role of Ecu

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT IN LONDON

EVIDENCE that the Eurocredit market's capacity for creative thinking has not been wholly channelled into the construction of rescue schemes for financially beleaguered countries, has come with a new package launched last week for France's state credit agency, Credit National.

The package is denominated in Ecus, the currency basket of the EEC. Its large size of Ecu 200m testifies to the growing role of this composite currency as a capital market vehicle. Not only is it increasingly being used in banking transactions but there is also a growing demand for Ecu assets among investors on the continent.

The problem is that Ecu 200m is still a very large amount for a single bond issue. To get round this lead managers Credit Lyonnais have devised an altogether novel hybrid between the Eurocredit and bond markets, a floating rate Eurocredit that converts into bonds.

In its initial form the package contains two elements, an Ecu 50m, 10-year Eurobond, the terms of which have yet to be fixed, and an Ecu 150m, five year Eurocredit with a margin of ⅜ per cent for the first three years, rising to ½ per cent for the remaining two.

The Eurocredit will be convertible into bonds with a fixed coupon no higher than 12¼ per cent and a life no greater than 10 years from the original date of signature. Conversion can take place at three monthly intervals, but must be for a minimum amount of Ecu 25m. Conditions of each tranche of bonds will be set by a technical committee, comprising the lead managers of the credit and market makers of Ecu bond issues.

Under the terms of the package the bonds must be issued at a price of at least 100¼ with the premium over par accruing to the participants in the credit. This will boost their overall return from the credit part of the deal, which is also structured to appeal to banks, which are active not only in Eurocredits but also in the Eurobond market.

Once issued the bonds will not be held by participating banks, but marketed just like any other bond issue. For this the bond managers, who have also to participate in the Eurocredit, will receive further commissions of 1¼ per cent.

Elsewhere attention continues to focus on Brazil which has still failed to restore international money market lines to its banks to the targeted level of $7.5bn. The exact extent of the shortfall was not certain by Friday night, but it appeared to be significant and some bankers are suggesting modifications to its four-part rescue package will be needed as a result.

Under pressure from the International Monetary Fund some lines were restored by a deadline set for last Wednesday. The amounts are enough to allow Banco do Brasil and other Brazilian banks to continue with their normal business but do not give sufficient leeway to fund the day-to-day foreign exchange needs of the country's central bank.

Most bankers close to the package negotiations believe the shortfall can be made good in the next few days. Pressure is certainly likely to increase on those institutions which have not complied with this part of the package.

At the weekend the IMF was understood to wish to continue with Brazil's debt rescue package in its present form.

Brazil does, however, stand to benefit from the fall in oil prices initiated last week, having spent $10.1bn on crude oil imports last year. By contrast each $1 fall in the price of a barrel of oil costs Mexico $650m and Sir Jeremy Morse, Lloyds Bank chairman, warned last week that the drop in oil prices could force Mexico to seek extra funds this year.

INTERNATIONAL BONDS

New issue window re-opens to greet the thaw

BY ALAN FRIEDMAN IN LONDON

THE EURODOLLAR bond market pushed open one of its proverbial new issue "windows" last week and appears to have decided that it was time for a thaw in the weather. Gone from the Euromarket capitals of London, Frankfurt and Zurich was talk of depressed markets, unsold bonds and stiffening interest rates.

In its place was a new spirit of cautious optimism, based partly on the testimony of Mr Paul Volcker of the Federal Reserve Board and partly on the decision to take advantage of strong equity markets by issuing equity-linked Eurobonds.

Interpreting Mr Volcker's statements can be tantamount to reading tea leaves, but there seemed to be a consensus emerging in Europe that in his appearance before the U.S. Senate Banking Committee, he "did not say much but he left the door open for a further decline in interest rates."

The Eurobond market was encouraged and so pushed out $700m worth of new dollar bonds.

The new issues came during a week which saw dollar bond prices marked more than one point higher. The rise in prices did not come about because of any particular renewed enthusiasm from the all-imported Swiss investor, but rather because other European and Middle Eastern investors managed to buy enough high-yielding seasoned bonds (some at premium prices) to drag new issue prices up as well.

Last week did not see a major rally by any means; it was not even worthy of the term "bull market." But a combination of optimism over interest rates and a number of switching purchases (where lower yielding paper is sold in order to buy higher-yielding bonds) made for a much healthier market tone.

By any yardstick, the most successful deal in the market at present is the new $250m bond-plus-warrants issue for Siemens, the German electrical group. The seven-year bond, which carries a 7¾ per cent coupon, provides two warrants to buy a total of nine Siemens shares at DM 265 each. Some $50m of the Siemens issue was pre-placed with only one (non-German) European institution and the rest of the issue sold out within 24 hours of launch.

The timing was just right as the Siemens share price moved up from DM 269 on Thursday morning to close at DM 274 on Friday. The bond package traded as high as 110 at one point on Friday, before closing at an impressive 106–107, against an issue price of par.

The warrants are not detachable until April, but already a pre-market is being made in Europe and the bond, stripped of warrants, was quoted at around 82½, suggesting a yield of 11.53 per cent. Investors clearly have faith in the shares if they are willing to spend around $240 to $250 for the two warrants which go with each bond (this price equates to 24 to 25, the difference between the 106 to 107 package price and the stripped bond 82½ price.

Reactions to the Siemens issue ranged from admiration to awe. But several bankers pointed out that while the right equity link can "make" an issue, a steadily improving share price ensures success.

For Deutsche Bank, the lead-manager, it is a useful feather in the cap at a time when most of the Eurobond market is still discussing the resignation of one of the bank's top Eurobond executives.

The equity trend continues on Tuesday next week when Daiwa Europe plans to launch a $100m 15-year Eurodollar convertible bond issue for Japan's Nissan Motor Company. This will be Nissan's first Eurodollar bond and around 50 per cent is now being pre-placed in Europe. Around $30m has already been placed of this 50 per cent. The Nissan coupon is likely to be between 5¾ and 6 per cent and the conversion premium around 5 per cent.

In West Germany, the Euro D-Mark bond market is improving; prices gained last week and the DM 1.97bn four-week new issue calendar did not dampen spirits. Volkswagen's DM 200m 10-year 7¼ per cent debut issue fared well on Friday. The paper is priced at 99 and was quoted at a discount of only ½ per cent, a sign of investor approval.

Expected this week are new issues for Ireland, MIM (the Australian mining company), Eurofima and Sweden. Ireland's issue, to be led by Commerzbank, is expected to have a coupon of around 8 per cent.

● While the Eurobond market continues to discuss Deutsche Bank developments and the resignations of WestLB's Peter Ganschiniets and Albrecht Nicolaus, another personnel riddle has been solved.

Mr Gary Klesch, who left his post as president of Dean Witter Reynolds in November, has resurfaced as chairman of a new London-based company which begins operating this week and is to be known as Quadrex Securities.

Mr Michael Thompson, formerly Mr Klesch's deputy at Dean Witter, says he will be managing director of the new company, located in London's West End.

Mr Thompson says the company will deal in fixed-income securities, has a $10m capital base and a staff of 22. It is understand that the backer is a Gulf-based investor.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Mitsubishi Est. ‡	50	1988	5	11¾	100	Morgan Stanley, Nikko Secs.	11.750
CEMPME †¶‡	200	1988	5	5¼∅	100	CFF, BA Intl., Dai-Ichi Kangyo Intl.	–
Siemens ¶‡	250	1990	7	7¾	100	Deutsche Bank	7.750
Skandinaviska Enskilda Banken	100	1988	5	11½	*	Enskilda Secs., Morgan Gty., Salomon Bros.	*
SNCF ‡	100	1993	10	11½	99¾	SBCI, BNP	11.543
CANADIAN DOLLARS							
Farm Credit Corp. ‡	50	1993	10	12⅛	99¾	Wood Gundy, Soc. Gen. de Banque	12.178
D-MARKS							
Oslo ‡	100	1993	8	7¾	99½	Deutsche Bank	7.824
EIB ‡	200	1993	10	7¾	100	Deutsche Bank	7.750
Bank of America **‡	20	1988	5	7	100	Bay. Vereinsbk.	7.000
Volkswagen Intl. ‡	200	1993	10	7¼	99	Dresdner Bank	7.395
SWISS FRANCS							
Hishimatsu Constr. **§‡	40	1988	–	4⅛	100	CS	4.250
Asahi Chemical **§‡	70	1988	–	3⅞	100	UBS	3.825
BTR ‡	75	1993	–	5⅝	100	CS	5.625
Escom **‡	50	1987	–	6½	100	SBC	6.500
Shikoku Elec. ‡	100	1993	–	5⅝	100	UBS	5.625
Spanish Tel. **‡	75	1989	–	6¾	100	UBS	6.750
New Zealand **‡	200	1988	–	5¼	100	UBS, CS, SBC	5.250
SWISS FRANCS (cont)							
Can. Nat. Railway **‡	100	1988	–	5⅛	100	SBC	5.125
Asics Corp. **§	40	1988	–	4	100	CS	*
Norsk Hydro	100	1998	–	*	*	SBC	5.500
Generale Occidentale	50	1991	–	*	*	Sofitic	*
Kyushu Elec. **‡	100	1989	–	5¾	100	SBC	5.750
EEC **‡	50	1990	–	5½	100	CS, SBC, UBS	5.500
Murata Mfg. **§	60	1988	–	3¾	100	SBC	
GUILDERS							
Sweden	150	1993	8	8½	*	Amro Bank	*
Philips Lamps **‡	100	1988	5	7¼	100	Amro Bank	7.250
KLM ¶‡	100	1993	10	7	100	ABN, Pierson Heldring & Pierson	7.000
ECUs							
Quebec Prov. ‡	50	1989	6	11½	100	Societe Generale	11.500
Elf Aquitaine Norge ‡	30	1988	5	11¾	100	Bque. Indosuez, Sparebanken Oslo Akershus	11.750
EIB	50	1991	8	11¾	*	BBL, Amro, BNP, Kredietbank, Soc. Gen. de. Bque.	*
YEN							
Gabinete de Area de Sines **‡	5bn	1993	9	8.6	99½	LTCB of Japan	8.864
EDF ‡	20bn	1993	10	8.1	99½	Nomura Secs.	8.341
World Bank	20bn	1993	10	8	99½	Nomura Secs.	*

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ∅ Minimum. § Convertible. ¶ With warrants. ‖ For three years. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Volcker testimony brings a new guarded optimism

A NEW PHASE of guarded optimism is apparent in the U.S. credit markets in the wake of testimony by Mr Paul Volcker before the Senate Banking Committee last week in which he said nothing particularly new but seemed to offer something for almost everyone.

The key message was that the Fed will remain "flexible": eager to foster the recovery unconstrained by a tight monetary straitjacket but also determined *not to stoke up* renewed inflationary fears.

It was what the credit markets expected and wanted. But Mr Volcker seems to be attempting to "talk down" interest rates without promising further Fed intervention to that end.

As expected the Fed has all but abandoned targeting M1 to concentrate on the broader M2 and M3 measures—for which it has given itself a wide leeway—and has introduced a new total non-financial credit measure which, while not a formal target, will be closely monitored.

It is however clear that the Fed intends to rely more upon its own judgment than any *single set of numbers*. This could be the major weakness in the Fed's message. As Aubrey G. Langston pointed out in its latest comments on the credit markets, "the danger could be that greater Fed discretion, unless used wisely, can increase market uncertainty over Fed actions and diminish the Fed's anti-inflationary credibility to a point that becomes harmful for the financial markets.

Nevertheless, the credit markets, as a whole, liked Mr Volcker's package. By again stressing his concern about inflation he signalled his awareness of the concerns of those who fear the Fed was in danger of becoming too expansionary.

However by stressing the international liquidity crisis and the need for lower interest rates to aid the domestic recovery he also indicated that there is little chance of the Fed "slamming on the monetary brakes," at least not for the moment. It was this message which seemed most readily welcomed in the U.S. credit markets.

Dr Henry Kaufman of Salomon Brothers said: "Because of these changes in policy formulation, the economy now is more likely to achieve a 2 per cent growth rate year-to-year. At a minimum the Fed will stabilise short-term rates, possibly allowing further occasional declines. Nevertheless, long-term rates will remain volatile. In our opinion these changes in Fed policy are not likely to re-ignite inflationary expectations at any time soon."

Mr Philip Braverman of Chase Manhattan said: "The new reality is that the Fed is willing to encourage and accommodate any potential for lower yields. This all adds up to the prospect of additional and probably substantial easing moves by this spring, a continued accommodative Fed stance until then, and no firming moves any time soon."

Against this background bond prices picked up and short-term rates fell, aided by Fed intervention to supply reserves through five-day system repurchases on Thursday. Short-term bill rates dropped by up to 30 basis points on the week and the Fed funds rate crept back down to around 8⅜ having edged up as high as 8¾.

The credit markets were particularly strong immediately after Mr Volcker's comments and again on Friday. The Treasury long bond picked up 2 points to close at around 96⅝ to yield 10.73 per cent and corporate bonds also showed moderate price gains.

An increase in retail buying interest towards the end of the week helped clear more of the dealer backlog.

Paul Taylor

U.S. INTEREST RATES

	Week to Feb 18	Week to Feb 11
Fed Funds wkly. av.	8.62	8.50
3-month Treas. bill	8.62	8.50
3-month CD	8.50	8.50
30-year Treas. bond	11.04	11.13
AAA Utility	12.25	12.25
AA Industrial	12.00	12.00

Source: Salomon Bros. (estimates). In the week to February 9 M1 rose by $2.8bn to $490.8bn.

DUTCH BONDS

Queue for KLM equity-linked issue

THERE was considerable excitement generated in the Dutch capital market last week by the announcement of a Fl 100m ($37.7m) 7 per cent bond issue lead-managed by ABN and Pierson Heldring and Pierson for KLM. The issue, which is equity-linked, is priced at 100 but by last Thursday was already trading at 110¼.

No further equity-linked bonds are expected on the Dutch market this year, and investors, at home and abroad, are apparently queuing up for a piece of the action. The issue is 40 per cent underwritten by foreign banks. Of the remaining 60 per cent a high proportion is likely to fall into the hands of foreign clients.

The Dutch capital market scene has, generally, been remarkably active recently. Turnover on the Amsterdam bond options exchange, for example, practically doubled last week, with the 7.5 per cent Netherlands 1983 issue the leading class. The volume of trading on the options exchange overall was up 25 per cent, while on the Amsterdam Bourse, even more importantly, Wednesday saw the index reach an all-time high, at 112.6.

As elsewhere, a revival of interest in shares has been the main feature of recent trading on the Bourse, with bonds taking second place for the first time in years. It is, in fact, the share-link of the KLM bond which pushed it up so high within a mere two days of its announcement.

Subscriptions to the KLM issue open on February 25, with a payment date of March 23. Attached to each Fl 1,000 bond is an "A" warrant entitling the holder to four KLM ordinary Fl 100 shares in May 1983, at a price to be fixed. Use of the "A" warrant option will moreover, entitle the holder to a second, "B", warrant, on which a further four KLM shares will be obtainable between June 1 1983 and March 15 1988. The maturity of the loan is 10 years, with redemption in five equal annual instalments, starting on March 15 1983 *and continuing* to 1993. Early redemption is excluded.

With share prices rising generally and with falling oil prices fuelling a particular interest in Airline holdings, the KLM issue was almost bound to be a success. A breakdown of who has been buying will not be available until next Friday but early indications are that interest is spread across the investment spectrum. By the end of last week, there was talk of a price of Fl 180-190 on warrant "A," with the price for "B" warrants depending on the availability of bonds. The exercise price of both warrants will be announced on February 24 before the opening next day of the Amsterdam Bourse, and it is thought the price for "A" will be 6 per cent under and that for "B" 6 per cent over.

Also in the Netherlands last week, Philips announced a private 7.25 per cent Euroguilder note placement to a maximum of Fl 100m at 100 per cent, managed by Amsterdam-Rotterdam Bank (AMRO). Subscriptions open on February 21 and sole redemption will be on March 15, 1988.

AMRO was syndicate leader in a 10-year, 8.5 per cent bond for Fl 150m announced last Monday for the Government of Sweden. The issue price here will be announced on February 21 at the latest, and subscriptions are on February 22 for payment on March 30. The loan will be redeemed in five nearly equal instalments, starting on April 1, 1989.

Dutch state loans, meanwhile, which have made much of the running in recent years as successive administrations have failed to contain budget deficits, are expected to pick up in March. The Government, flushed with success after the record Fl 5bn attracted by its January 7.5 per cent issue, has not entered the market so far this month but is believed ready for a fresh foray in a few weeks' time. First indications are that the interest rate next time could fall below 7 per cent.

Walter Ellis

Rumasa chief denies break with auditors

BY OUR MADRID STAFF

SENOR JOSE MARIA RUIZ-MATEOS, chairman and chief shareholders of Rumasa, Spain's largest private holding group, has rejected reports that his group had broken with its auditors and has charged that Sr Miguel Boyer, the Economy and Finance Minister, could have caused untold damage to the group by indicating on Friday that Bank of Spain inspectors could be called in to review the group's financial status.

However, the several banks belonging to Rumasa may already have been undergoing direct inspection by the Bank of Spain. Banking officials say they "would not rule out" that official but unpiblicised inspections had been taking place, over a period of months.

This would mean that investigation into Rumasa, whose interests embrace 18 banks and over 300 companies ranging from wine to hotels, is more advanced than was suggested in Fridays declaration by Sr Boyer that he would "at the very least send in Bank of Spain inspectors" if the company broke off an audit being carried out by the Arthur Andersen accounting firm.

The Minister's statement made clear, for the first time officially, that Rumasa's audit was being carried out at the request of the Deposit Guarantee Fund.

The request to Rumasa is understood to have been made as early as January last year, with the choice of auditor left to the company. Rumasa recently indicated it wanted to take on a different company.

The Bank of Spain itself, which has responsibility for supervising banks, is able to monitor banks' own accounts but has limited access to information about the companies they hold shares in.

The Rumasa group, employing 60,000 people, has been bilult up since 1061 by Sr Ruiz-Mateos, starting from a small sherry-growing business.

INTERNATIONAL APPOINTMENTS

Davy McKee senior post in Germany

Mr Klaus D. Comperl, chief executive of Davy McKee, West Germany

● Mr Klaus D. Comperl has been appointed chief executive for the *DAVY McKEE operations in* Germany. Mr Comperl will also be responsible for McKee Petrochem Engineers in Brussels. He succeeds Mr John H. Maude who is returning to Davy in the UK.

● Mr Kari Janhunen has been appointed branch manager of NORDIC BANK Singapore branch. He succeeds Mr Bo Jagd who takes up an appointment with Copenhagen Handelsbank.

● The following have been appointed directors of GENERAL MINING UNION CORP.: Mr T. L. de Beer—financial; Mr J. C. Fritz—mining; Mr B. Landau—industrial; Mr H. A. Smith—investments and administration.

● Mr Vincent J. Murray has been appointed vice-president—operations of the St Louis division of McDONNELL DOUGLAS ASTRONAUTICS COMPANY, succeeding Mr Harold C. Yost, who was recently promoted to corporate vice-president—productivity. Mr Murray will manage the manufacturing, procurement, and operations of the company, part of McDonnell Douglas Corp.

● Mr Lee J. Topp has been appointed president of COMPAIR INC., responsible for the CompAir Group's operations in North America. He joins the company from Pennsylvania Engineering where he was group vice-president.

● *Mr Gianfranco Antognini* has been appointed the first full-time board chairman of BANCA DELLA SVIZZERA ITALIANA, of Lugano. The former chairman, Mr Ettore Tenchio, remains a board member. Following the acquisition of a stake in the Swiss bank by Irving Trust Co. Mr Gordon T. Wallis, Mr James Peale and Mr Jean D. Zutter have joined the board as representatives of the New York shareholder. Mr Giuseppe Bertola and Mr Antonio d'Aroma have left the BSI board.

● NORDFINANZ-BANK, of Zurich, is to set up an executive board on March 31, following the move of general manager Mr Rudolf Lienert to Swiss Volksbank. The executive board will consist of Mr Bengt Ugla (speaker), Mr Kurt Kym, Mr Werner Grichting and Mr Paul Luterbacher, all with the rank of manager.

● BANQUE ROMANDE, a member of the BSI Group, with head office in Geneva has appointed Mr Claude Basset as general manager from April. Mr Basset, until now a senior vice-president and international officer in Geneva of one of Switzerland's "Big Three" banks, will succeed Mr Henry Huguenin, who joined the group and became general manager upon the *acquisition of a controlling* interest in Banque Romande by Banca della Svizzera Italiana in 1975. Mr Huguenin will become chairman of Banque Romande and a member of its executive committee on March 30. As chairman he will succeed Mr Gianfranco Antognini, who will be vice-chairman of Banque Romande and remain a member of its executive committee.

Mr Waldemar Veazie, promoted at Bendix Air Transport

● Mr Waldemar Veazie, formerly director of contracts and programmes at BENDIX AIR TRANSPORT'S avionics division, has been named director of marketing at the aircraft brake and strut division, Indiana.

● Dr Olle Jarleborg has been named vice-president sales, western hemisphere for AMAX NICKEL division, a unit of the metals group of Amax Inc., from March 1.

● Dr Hans Knopfli has been appointed chairman of the general management of BANK LEU, Zurich.

● Two Missouri Pacific Corporation directors, Mr Downing B. Jenks and Mr Warren M. Shapleigh, have been elected directors of UNION PACIFIC CORP and UNION PACIFIC RAILROAD. Union Pacific Corp acquired Missouri Pacific Corp on December 22. Mr Jenks has served as chairman and chief executive officer of Missouri Pacific Corp, the parent of Missouri Pacific Railroad Co, since 1973.

Mr Shapleigh was chairman of the Gard Research Corp from 1979 to 1981.

● Mr Bo Sandqvist has been appointed deputy managing director of EASB AB at its headquarters in Gothenburg. Mr Sandqvist is executive vice-president of the Dutch company Bijenkorf in Amsterdam.

● Mr Paul Putney has been appointed managing director of KORN/FERRY INTERNATIONAL'S European operations based in Paris.

● Mr Hugh Fehrenbach has been made vice-president, technical services for FLEXI-VAN'S container/chassis division. In this newly-created position, Mr Fehrenbach will oversee capital purchases with responsibility for engineering and world-wide equipment maintenance and repair activities. For the past three years Mr Fehrenbach served as vice-president of specialised equipment for Flexi-Van, a position he will continue to hold.

● Mr Henry C. Page, Jr., has been named vice-president of employee relations of ETHYL CORPORATION. Mr Page, who has been vice-president of personnel of the Charter Company in Jacksonville, Fla., for the past two years, succeeds Mr Stephen B. Rodi, who retires in July.

● Mr David L. Brewin has been named director, compensation, in HERSHEY FOODS CORPN'S human resources department. Before joining Hershey, Mr Brewin was corporate exempt compensation manager at Thiokol Corporation, Newtown, Pa., where he served as corporate compensation manager for nine divisions and three subsidiaries relative to corporate compensation issues.

● Mr Anthony J. diBuono has been named vice-president and general counsel of COLT INDUSTRIES. Mr William D. Ford, general counsel since 1963, will continue as senior vice-president—legal, secretary, and a director.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amex O/S Fin. 14¼ 89	75	111	111½	+0¼	+0⅞	11.57
Amro Bank 13 89	200	104⅞	105¼	+0¼	+0¾	11.87
BHP Finance 14¼ 89	150	107	107½	+0¼	+0¾	12.56
[illegible]						

	Issued	Bid	Offer	Change on day	Change on week	Yield
Tokyo Metropolis 5¾ 92	100	100¼	100½	−0¼	0	5.32
World Bank 5½ 93	100	101¼	101½	+0¼	+0¼	5.32
World Bank 6¼ 92	100	103¼	103½	−0½	−1¼	5.70

Average price changes... On day 0 on week 0

Other sections of the table (YEN STRAIGHTS, OTHER STRAIGHTS, FLOATING RATE NOTES, DEUTSCHE MARK STRAIGHTS, SWISS FRANC STRAIGHTS, CONVERTIBLE BONDS): [illegible]

© The Financial Times Ltd., 1983. Reproduction in whole or in part in any form not permitted without written consent. Data supplied by DATASTREAM International.

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	6,770.1	12,519.5
Previous week	9,129.0	17,462.0
Other bonds		
Last week	1,363.8	935.0
Previous week	1,167.8	837.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corp; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on February 18

UK COMPANY NEWS

Judge rules in favour of Norton Warburg auditor

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

AN order requiring the former auditor of two companies in the Norton Warburg group to produce at an oral examination all documents in his possession relating to the companies was oppressive and unfair, and should be discharged, a High Court judge has ruled.

The order had been obtained by Mr Gerhard Weiss and Mr James Clement, joint liquidators of Norton Warburg Holdings and Norton Warburg Investment Management, and the Receiver, Mr Paul Shewell.

It had been made against Mr Peter Gillett, now a partner in Ernst Whinney and formerly with Turquand Barton Mayhew.

Mr Gillett and Mr Stephen Bailey, formerly audit manager with TBM, also complained to the court about orders requiring them to attend for oral examination by the liquidators and receiver.

They argued that they should first be given, in writing, the questions they were required to answer.

Mr Justice Vinelott said there was no possible justification for the order requiring Mr Gillett to produce the documents.

The liquidators and Receiver had wrongly inferred from correspondence that Mr Gillett had refused to agree that they should have access to the documents in TBM's possession. In fact, TBM had agreed that they should see the documents.

The judge said that weight had to be given to the views of the liquidators and Receiver about the best way to carry out a complex investigation of public importance; but on other hand it should not be carried out in a way that was unnecessarily oppressive and unfair to Mr Gillett and Mr Bailey.

After the documents had been inspected, the liquidators and Receiver should put their questions in writing. An oral hearing should then be arranged and detailed information given of the topics on which further clarification was required and the documents to which Mr Gillett and Mr Bailey would be referred, the judge ruled.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interim: Thomas Nationwide Transport.

Finals: Aidcom International, Charles Baynes, English and Scottish Investors, Marchwiel, Scottish Eastern Investment Trust.

FUTURE DATES

Interim:
Sime Darby ... Mar 5

Finals:
Blagden Industries ... Feb 28
Joseph (Leopold) Sterling Fund ... Feb 24
London and Scottish Marine Oil ... Mar 10
Olives Paper Mill ... Feb 25
Trade Indemnity ... Mar 15
Trans National Trust ... Mar 3

Pleasurama's satisfactory start

IN THE current year, the results to date of Pleasurama, the entertainment and amusement group, are regarded as satisfactory, says Lord Harmar-Nicholls, the chairman, in his annual statement.

As reported on January 7, group pre-tax profits for the year ended September 30, 1982 were lifted by over 70 per cent from £5.58m to £9.51m. Turnover rose from £16m to £22.33m. The dividend is being effectively increased from 4.75p to 7.5p net and a one-for-one scrip issue is also proposed.

In March, 1982, the company acquired Maxim's casino in London and the final six months of the year 1981-82 reflected the benefit of a first time contribution from this acquisition. Profits were higher than the board's expectations and to date the club has continued to trade successfully.

Both associated companies—the Ritz Casino and the Casanova Club—continued to progress but, with the granting of additional licences in London, shareholders should not necessarily expect to see the same percentage growth in future profits.

The group's balance sheet at September 30, 1982 shows shareholders' funds ahead from £15.89m to £22.22m. Fixed assets were higher at £21.41m, compared with £14.59m, while net current liabilities increased from £295,000 to £875,000.

L. Ryan buying out Ryan Europe

L. Ryan Holdings says that it has entered into an agreement with B.V. Nederlandse Internationale Industrie—En Handel MIJ (NIIHM) and other subsidiaries of the Royal Dutch Shell Group, whereby Ryan Holdings will acquire from the vendors the 50 per cent shareholding in Ryan Europe S.A. which it does not already own, for a cash consideration of £810,000.

Ryan Europe, which is based at Charleroi in Belgium, is principally involved, like almost all the other subsidiaries of Ryan Holdings, in the recovery of coal from discard tips and the subsequent reclamation and landscaping of land.

Ryan Europe was incorporated in 1969 to exploit the extensive reserves of coal contained in the large number of tips located in southern Belgium and it produces more than 50 per cent of all coal presently recovered from tips in Belgium.

The consideration of £810,000 will be paid in instalments. The initial instalment of £100,000 has already been paid. Subsequent instalments will be paid, together with accrued interest, as follows: £150,000 will be paid on July 31 1983, £300,000 on January 31 1984 and £260,000 on July 31 1984.

If the agreement does not become unconditional and the shares transferred by June 30 1983 the vendors will repay to Ryan Holdings the initial instalment of £100,000 together with accrued interest.

Ryan Holdings has also agreed to purchase from NIIHM an existing loan from NIIHM to Ryan Europe of £550,000 in three instalments as follows: £40,000 on July 31 1984, £300,000 on January 31 1985 and £210,000 on July 31 1985.

FT Share Information

The following security has been added to the Share Information Service:
Booth (Charles) (Section: Property).

AMERSHAM ACQUIRES PROCHEM FROM BOC

Amersham International has reached agreement with British Oxygen Company, a wholly owned subsidiary of BOC Group, to purchase its stable isotope business, Prochem, from BOC Special Gases.

The agreement is subject to contract. Though the initial sales contribution will be modest, this acquisition will enable Amersham to add a range of stable isotopically-labelled compounds to its business in radioactive carbon compounds.

The principal use of these materials is in research applications in the life sciences.

SANGERS/SOLIDYNE

Sangers has agreed to acquire a further 50,115 shares (7.36 per cent) in its U.S. subsidiary, Solidyne. The consideration is 440,132 new shares in Sangers.

Sangers already holds 52.5 per cent of Solidyne.

SHARE STAKES

F. Pratt Engineering Corpn—Maurice James Industries has acquired 24,000 ordinary shares increasing holding to 274,000 (5.002 per cent).

English and New York Trust—Standard Life Assurance sold 920,000 stock units reducing holding to 3,093,165 (7.7 per cent).

Newmarket (1981)—Witan Ivestment is interested in 1,591,020 shares (11.91 per cent).

Centreway Trust—Centreway Group has purchased 30,000 ordinary shares. Total interest now 419,792 ordinary (56.58 per cent).

Hanson Trust—Target Worldwide Capital Fund purchased 100,000 ordinary shares at 187p each.

IN BRIEF

H. YOUNG HOLDINGS (motor distributor)—Pre-tax loss for half-year to November 11 1982 £4,859 (£21,679): turnover £2.26m (£1.93m): trading loss £4,859 (£21,679, before exceptional losses of £17,844 arising on start up of new garages). No interim dividend (same). Loss per 25p share 0.3p (4.8p). The company's main subsidiary, Puttocks, is now established as a substantial Colux Mercedes-Benz dealership, and since January 1 1983 is selling the full range of passenger cars, light commercial and heavy truck vehicles. A profit is anticipated by the board in the second half.

GRANADA GROUP (television rental and contracting group)—Results for 53 weeks to October 2, 1982 already known. Shareholders' funds £160.58m (£147.62m): fixed assets £352.05m (£287.68m): loans and finance advances £35.19m (£25.9m): current assets £94.8m (£102.11m): current liabilities £201.67m (£173.11m): investments £23.53m (£28.24m), including £10.19m (£14.62m) listed and £13.34m (£13.62m) unlisted. The aggregate amount of capital commitments not provided for in the accounts for contracts placed is £44.13m (£33.37m) which includes rental equipment of £34.32m (£23.73m). In addition, expenditure of £45.79m (£51.68m) has been authorised but not contracted for and includes rental equipment of £36.32m (£46.95m). Meeting: 36, Golden Square, W. March 14 at 12.30 pm.

CONTRACTS

Tectrans plant award

TECTRANS SERVICES, London (a subsidiary of Tectrans Hamburg), has been awarded a plant, machinery and services supply contract by HIM Containers, Calcutta. The contract involves plant, product and systems design for a 7,000 sq metre ISO freight container factory currently under construction at Haldia, India. The value of goods and services is over £1.7m. Production of containers is planned to start towards the end of 1983 building up to a rate in excess of 20 TEU per day. Plant and machinery purchases from the UK are currently being completed using export finance facilities provided by Lloyds Bank export division and the Standard Chartered Merchant Bank.

*

PEABODY WATER SERVICES has won over £1m in Middle East orders. In the Sudan, a contract worth over £200,000 for drinking water plant for a whole town, and in Bahrain it won a £120,000 order for an industrial water treatment plant, built and delivered in 10 weeks, for the Haji Hassan Group, ready-mix division. Peabody has also received, through their agents, orders for 50 more drinking water plants valued at a further £600,000. The plants ordered for Ed Damar in the Sudan Northern region are of the clarification and filtration type.

*

Sewer relining, canal reclamation, a caravan site, airfield power house, dwellings modernisation, data processing refurbishment, road realignment and a relief road are among a variety of contracts secured by A. MONK AND COMPANY totalling £3.6m.

*

A £1m contract for the refurbishment of four-storey Glasgow tenement blocks has been awarded to JOHN LAING CONSTRUCTION. Existing accommodation within nine closes, in Napier Street and Maryhill Road, totals 73 dwellings which will be altered to produce 56 homes for the Queens Cross Housing Association. Improvements and repairs will include renewal of woodwork, plaster, plumbing and electrical installations plus painting of all dwellings and communal areas. Roof repairs, stone cleaning and maintenance will also be carried out under the contract due for completion by the end of the year. New concrete slabs will be laid in the courtyards at the rear and shrubbery planted.

*

BRITISH ROPES is supplying 85 nautical miles of 8.64 mm diameter steel strand to Standard Telephones and Cables. It will form the centre member for a new £8.5m British Telecom undersea cable running between Britain and the Netherlands and jointly owned by UK, Netherlands, Belgium and Germany. The cable will carry up to 4,200 simultaneous phone calls. Laying will start in mid-September.

*

GKN Group subsidiary SHEEPBRIDGE SINTERED PRODUCTS, which specialises in sintered friction linings, engineering components and filters for aerospace, on/off highway vehicles and industrial applications, has won an order worth over £125,000 for the supply of military aircraft brake discs.

*

CHILTERN WATER TREATMENT, High Wycombe, packaged plant manufacturing member of the Dewplan Group, has won two contracts totalling £150,000. The first is to provide 2,000 litres/hour of ultrapure water at IBM (United Kingdom) Laboratories' Hursley Park research and development establishment. The second, with Mason and Morton, is for additional water treatment for the Wellcome Foundation's research laboratories at Dartford.

*

DUNLOP'S Birmingham-based UK tyre division has won an export order to supply SP Elite car tyres to Volvo in Holland. The company says the contract, the first of its type, is a breakthrough into a new market, and is understood to be worth around £400,000 a year. Dunlop already supplies £5m a year of tyres to Volvo in Sweden, and exports to the Volvo factory at Ghent in Belgium.

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1982/3 High	1982/3 Low	Stock	Closing price	+ or −	Net Div.	Times Covered	Gross Yield	P.E. Ratio
112	F.P.	—	138	129	Assoc. British Ports	157	......	b7.0	1.5	7.3	13.0
§108	F.P.	13/1	238	140	✻Baltic Leasing 5p	218	−15	b2.8	3.5	1.8	17.2
§100	F.P.	22/4	105	100	Br. Kidney Pat. A5	105	..	—	—	—	—
§74	F.P.	21/1	158	103	✻Convermoor	124	−5	b3.64	2.0	4.1	14.1
§38	F.P.	—	100	90	✻HB Elect Comps 10p	98	+7	u1.12	3.2	1.6	22.0
§130	F.P.	14/1	215	155	✻Memory Comp Ir10p	190	−15	bQ28.6%	5.6	1.2	20.7
§190	F.P.	4/3	388	305	✻Microgen	305	−5	b4.0	2.9	1.9	25.2
§155	F.P.	7/1	255	200	✻Munford & White	225	+2	b2.6	2.4	1.7	35.6
§93	F.P.	4/2	198	145	✻Resource Tech. 10p	162	−5	—	—	—	31.2
‖	F.P.	—	110	93	✻Sinclair (Wm.)	93	....	§4.25	1.0	6.5	22.5
"	F.P.	—	105	88	Do. Defd.	85	....	—	—	—	—
120	F.P.	—	125	100	✻Swindon Priv Hos £1	104	−1	—	—	—	—
§10½	F.P.	—	78	16	✻Tops Estates 10p	60	−5	—	—	—	—
§150	F.P.	18/2	340	265	✻WightCollinsR·S10p	300	−5	bd2.75	3.3	1.3	33.5
—	F.P.	3/5	25	21	Yorks &Lancs. W'rrnts	21	.....	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1982/3 High	1982/3 Low	Stock	Closing price	+ or −
¶¶	F.P.	—	98	88	Anglo-Nordic 10% Cnv. Uns. Ln. 1989	98	+1
97.504	£25	4/5	29½	15¾	BOC 12¼% Uns. Ln. 2012-17	20¾	+½
99.431	£20	10/4	21⅞	12	Birmingham 11½% Red. 2012	15¼	+¾
¶	£10	24/3	11¼	11	East Surrey Water 7% Red. Pref. 1988	11	....
¶¶	F.P.	—	130	86	European Inv. Bk. 11% Ln. 2002	91	+½
¶	£10	—	10	10	Mid Sussex Water 7% Red. Pref. '88-90	10½	.....
—	—	—	100¼	99	Nationwide Bdg. Soc. 11⅞% Bds. 25/1/84	100¼	.....
—	—	—	100⅜	100	Do. 11⅞% Bds. 15/2/84	100½	.....
§97.174	£25	6/5	25¾	22	Pearson (S) 13% Uns. Ln. 2007	25¾	+¼
96.55	£25	8/7	28	25½	Sweden 13½% Ln. Stk. 2010	28	+½
¶¶	F.P.	18/2	92	85	Transcont. 9% Cnv.Ret.Uns.Ln.Nts.1998	92	.....

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1982/3 High	1982/3 Low	Stock	Closing price	+ or −
250	Nil	26/2	28/4	45pm	35pm	AGB Research 10p	42pm	.....
26	F.P.	28/1	18/2	370	94	Arlen Elec.	355	.....
3½	Nil	—	—	15pm	9pm	Audiotronic 2½p	9pm	.....
90	F.P.	28/1	18/2	127	108	Bellwny.	126	.....
50	F.P.	8/2	9/3	55	45	Cluff Oil 'B'	47	−3
73	Nil	—	—	17pm	12½pm	Dominion Int. 20p.	16pm	+1
90	F.P.	21/2	7/4	144	130	Grosvenor Group	137	.....
60	F.P.	14/1	11/2	79	65	ICL	74	−1
46	F.P.	14/2	11/3	60	51	LCP	59	.....
27	F.P.	21/7	7/4	34	32	Mount Charlotte 10p.	34	.....
93	F.P.	7/2	21/3	122	106	NSS News 10p	120	.....
60cts	Nil	—	—	2½pm	1pm	Rand Lon. Corp. 15cts	1pm	.....
58	F.P.	3/2	29/4	69	61	Stakis 10p.	69	.....
400	Nil	—	—	90pm	80pm	Ultramar	90pm	+7

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital: cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend: cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1983. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✻ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Formerly dealt in under special rule.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Company	Date	Announcement last year	Company	Date	Announcement last year
AAH	Mar 8	Interim 2.1	HME	Feb 24	Interim 2.5
Anglo Amer. Gold	Mar 11	Final 500c	*Hongkong and Shanghai Bk.	Mar 8	Final HK$0.44
Armstrong Equipment	Mar 24	Interim 0.35	Horizon Travel	Mar 29	Final 4.85
Ault and Wiborg	Mar 5	Final 0.75	*ICI	Feb 24	Sec. int. 10.0
*BICC	Mar 23	Final 7.04	IMI	Mar 16	Final 2.5
BSR	Mar 24	Final 0.5	Kleinwort Benson	Mar 30	Final 7.0
BTR	Mar 8	Final 4.5	Ladbroke	Apr 1	Final 3.827
Babcock Intl.	Mar 31	Final 3.6	Laird	Apr 5	Final 2.0
*Barclays Bank	Mar 7	Final 11.5	Legal and General	Mar 31	Final 9.0
*Barratt Devs.	Mar 14	Interim 3.5	Lex Service	Mar 17	Final 4.2
*Bath and Portland	Feb 22	Final 2.5	*LASMO	Mar 10	Final 6.0
Belam	Mar 18	Interim 1.25	Lucas Inds	Mar 25	Interim 2.6
Bell (A.)	Mar 24	Interim 1.7	*Marchwiel	Feb 22	Final 4.2
*Bibby (J.)	Mar 10	Final 6.1	*Marley	Feb 23	Final 1.25
*Blagden Inds.	Feb 28	Sec. Int. 3.0	*Midland Bank	Mar 10	Final 16.0
Booker McConnell	Mar 30	Final 2.125	Mills and Allen Intl.	Mar 19	Interim 6.0
Bowthorpe	Mar 31	Final 1.894	*NatWest	Mar 15	Final 15.575
*Brent Chems	Mar 22	Final 1.7	Ocean Transport	Mar 25	Final 4.7
British Aerospace	Mar 30	Final 4.8	Peachey Prop.	Mar 23	Interim 2.25
BP	Mar 15	Final 14.0	Prudential	Mar 24	Final 8.0
British Vita	Mar 8	Final 1.7	*Ransomes Sims and Jeffries	Mar 9	Final 8.0
Brooke Bond	Mar 16	Interim 1.25	Reckitt and Colman	Mar 30	Final 6.0
Bunzl	Mar 31	Final 5.0	*Rentokil	Mar 17	Final 1.8
*Cadbury Schweppes	Mar 10	Final 3.3	Rockware	Mar 24	Final 3.0
Cape Inds	Mar 30	Final 1.7	*Royal Insce.	Mar 1	Final 15.5
Carlton Inds	Mar 15	Final 5.0	Sedgwick	Mar 18	Final 3.75
Charterhouse Group	Mar 29	Final 3.0	Shell Transport	Mar 11	Final 11.9
Charterhouse Pet.	Mar 16	Final 0.5	*Sime Darby	Mar 5	Interim 4 sen.
Collins (Wm)	Mar 17	Final 4.5	Slough Ests.	Mar 24	Final 2.075
*Commercial Union	Feb 22	Final 6.95	Smith and Nephew	Mar 23	Final 2.7
*Common Bros.	Feb 22	Interim 1.0	Stndrd. Chrtrd. Bank	Mar 30	Final 23.2
*Cons. Gold Fields	Mar 9	Interim 8.5	Steetley	Mar 18	Final 6.5
Consolidated Plantations	Feb 18	Interim 7 sen.	*TI	Mar 17	Final 5.0
Croda Intl	Mar 31	Final 2.25	Tilling (T.)	Mar 17	Final 4.5
DRG	Mar 24	Final 3.0	Transport Dev.	Mar 15	Final 2.8
De Beers Cons.	Mar 9	Final 25c	Tricentrol	Mar 25	Final 5.6
Eagle Star	Mar 24	Final 11.429	Turner and Newall	Mar 17	Final nil
Exco Intl.	Mar 16	Final 2.5	*Ultramar	Mar 10	Final 8.0
*Fisons	Mar 1	Final 6.0	*Unilever	Mar 1	Final 16.91
Freemans	Mar 29	Final 2.25	*United Biscuits	Mar 17	Final 3.0
*General Accident	Mar 2	Final 8.75	Vantona	Feb 22	Final due
General Mining	Mar 4	Final 120g	*Vickers	Feb 28	Final 7.45
Glynwed Intl.	Mar 29	Final 4.9	Weir	Mar 31	Final 1.75
GRE	Mar 31	Final 10.75	Wills Faber	Mar 24	Final 10.7
GKN	Mar 18	Final 4.0	Wolseley-Hughes	Mar 16	Interim 4.84
Habitat Mothercare	Mar 29	Interim 1.2			
Hall Eng'g	Mar 18	Final 4.2			
Hepworth Ceramic	Mar 24	Final 3.0			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Closing prices in New York, February 18

NEW YORK STOCK EXCHANGE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 21

AMERICAN STOCK EXCHANGE CLOSING PRICES

Closing prices in New York, February 18

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued on Page 22

NEW YORK STOCK EXCHANGE CLOSING PRICES

Continued from Page 20

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
39¾	22½	WhirlC	1 50	3 9	21	638	38½	38	38¼	-¼
39	31¼	WhitC	pfC3	7 7		10	39	38¾	39	
38¾	12¼	Wheeh!			18	59	38	37⅛	37¾	
30¼	18	Whittak	1 60	6 6	6	471	24⅝	24¼	24¼	-⅛
8	3	Wiebldt		6 3		141	7	6¾	7	
27⅞	12⅝	Willem	1 20	5 9	18	921	20⅞	20⅛	20⅜	-⅛
18⅝	9⅛	WilmEl	40	3 1	6	293	13⅛	12⅝	12⅞	+⅛
11¾	6½	WilshrO	07r	6	11	251	11½	11	11½	+⅛
50⅞	29¾	WinDx	2 40	5 6	10	75	42⅞	42⅝	42⅞	+⅜
16½	4⅛	Winnbg	10e	7	42	548	15¼	14⅝	15¼	+⅝
6⅞	3¼	WinterJ			75	56	6⅛	5⅞	6	+⅛
25¾	19	WisEP	61 94	8 5	6	207	23⅛	22⅞	22¾	-⅛

Continued on Page 22

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a—dividend also extra(s). b—annual rate of dividend plus stock dividend. c—liquidating dividend. cld—called. d—new yearly low. e—dividend declared or paid in preceding 12 months. g—dividend in Canadian funds, subject to 15% non-residence tax. i—dividend declared after split-up or stock dividend. j—dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k—dividend declared or paid this year, an accumulative issue with dividends in arrears. n—new issue in the past 52 weeks. The high-low range begins with the start of trading. nd—next day delivery. P/E—price-earnings ratio. r—dividend declared or paid in preceding 12 months, plus stock dividend. s—stock split. Dividends begins with date of split. sls—sales. t—dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u—new yearly high. v—trading halted. vi—in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd—when distributed. wi—when issued. ww—with warrants. x—ex-dividend or ex-rights. xdis—ex-distribution. xw—without warrants. y—ex-dividend and sales in full. yld—yield. z—sales in full.

WORLD STOCK MARKETS

Indices

NEW YORK

DOW JONES

	Feb. 18	Feb. 17	Feb. 16	Feb. 15	Feb. 14	Feb. 11	1982-83 High	1982-83 Low	Since Cmpil't'n High	Since Cmpil't'n Low
◆ Industr'ls	1092·82	1088.81	1087.43	1093·10	1097.10	1086.5	1097.10 (14 2 83)	776.92 (12.8)	1097.10 (14·2·83)	41.22 (2.7.32)
H'me Bnds	71.49	71.15	70.90	71.11	71.14	71.02	72.39 (18 1·83)	55.67 (12.2)	—	—
Transport..	480.70	476.89	478.16	477.58	480.94	473.91	485.07 (4 2 83)	292.12 (12 8)	485.07 (4 2·83)	12.32 (8·7/32)
Utilities.....	124.12	123.84	124.08	123.94	124.08	125.66	126.78 (20·1/83)	104.29 (30.7)	165.32 (20·4·69)	10.5 (28,4·42)
TradingVol 000·s	77,428	74,930	82,100	83,040	72,640	86,700	—	—	—	—

◆ Day's high 1099.42 (1096.35) low 1079.99 (1075.52)

	Feb. 11	Feb. 4	Jan. 28	Year ago (Approx)
Indust'l div. yield %	4.95	4.99	5.08	6.66

STANDARD AND POORS

	Feb. 18	Feb. 17	Feb. 16	Feb. 15	Feb. 14	Feb. 11	1982-83 High	1982-83 Low	Since Cmpil't'n High	Since Cmpil't'n Low
‡Indust'ls ..	166.38	165.78	165.76	166.88	167.80	166.39	167.80 (14 2·83)	114.08 (12.8)	167.80 (14.2.83)	3.52 (30 6 32)
§Comp's'te	148.00	147.44	147.45	148.30	148.92	147.62	148.92 (14.2.83)	102.42 (12/8)	148.92 (14.2 8..)	4.40 (1.6·32)

	Feb. 16	Feb. 9	Feb. 2	Year ago (approx)
‡Indst'l div. yield %	4.32	4.38	4.45	5.79
Indust'l P/E ratio	11.52	11.35	11.18	7.66
Long Gov. Bond yield	10.92	11.09	10.93	13.93

N.Y.S.E. ALL COMMON

1982-83						
Feb. 18	Feb. 17	Feb. 16	Feb. 15	High	Low	
85.44	85.11	85.18	85.68	85.89 (14·2·83)	58.80 (12 8)	

Rises and Falls	Feb. 18	Feb. 17	Feb. 16
Issues Traded	1,906	1,930	1,902
Rises	905	660	685
Falls	626	998	957
Unchanged	375	377	360
New Highs	115	86	116
New Lows	3	4	1

MONTREAL

	Feb. 18	Feb. 17	Feb. 16	Feb. 15	1982-83 High	1982-83 Low
Industrials	365.25	364.58	365.16	368.58	368.58 (15/2 83)	243.66 (21/6)
Combined	354.84	853.23	355.60	354.70	355.66 (16/2/83)	217.37 (21/6)
TORONTO Composite	2136.80	2135.3	2147.6	2146.3	2147.6 (16/2/83)	1352.2 (1/7)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
ATT	1,225,200	67¾	+ ½	Beatrice Foods	793,200	24⅞	+ ⅛
Litco	1,206,200	16⅞	− ⅞	Exxon	751,700	29⅞	+ ⅛
Mesa Trst	1,024,100	2¾	—	Archer Daniels	713,100	23⅝	+ ⅛
Goodyear Tire	882,600	30	+ ½	Sperry	704,300	34⅝	− 1⅛
Schering Plgh.	843,800	46⅛	+ 17⅞	IBM	671,700	98⅝	+ ⅞

	Feb. 18	Feb. 17	Feb. 16	Feb. 15	1982-83 High	1982-83 Low
AUSTRALIA All Ord. (1/1/80)	517.2	518.7	515.2	514.9	[illegible]	[illegible]
Metal & Minls. (1/1/80)	467.7	470.5	464.1	456.2	[illegible]	[illegible]
AUSTRIA Credit Aktien (2.1.62)	48.77	48.69	48.71	48.48	56.36 (4/11)	47.53 (25/10)
BELGIUM Belgian SE (31/12/63)	105.46	106.11	106.17	105.93	106.46 (18/2/83)	95.42 (20.1/82)
DENMARK Copenhagen SE (3/1/83)	111.16	109.56	[illegible]	107.57	111.16 (18/2/83)	100.00 (3/1/83)
FRANCE CAC General (31.12/81)	104.6	105.1	105.5	105.8	[illegible]	[illegible]
Ind Tendance (31.12/82)	109.4	109.1	109.7	110.2	[illegible]	[illegible]
GERMANY FAZ-Aktien (31.12/58)	262.46	258.82	258.55	260.61	262.46 (18/2/83)	214.06 (17/8)
Commerzbank (Dec 1953)	787.8	771.6	776.4	779.8	[illegible]	650.8 (17/8)
NETHERLANDS ANP-CBS General (1970)	111.3	111.5	112.6	111.0	[illegible]	[illegible]
ANP-CBS Indust (1970)	97.2	97.5	98.8	97.3	[illegible]	[illegible]
HONG KONG Hang Seng Bank (31/7/64)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ITALY Banca Comm Ital. (1972)	189.55	189.20	185.35	202.01	212.09 (15/3)	147.23 (22/7)
JAPAN** Dow Average (16/5/49)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo New SE (4/1/68)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NORWAY Oslo SE (4/1/83)	151.9	151.27	149.56	145.55	151.9 (18/2/83)	99.01 (4/1/83)
SINGAPORE Straits Times (1966)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SOUTH AFRICA Gold (1958)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Industrial (1958)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SPAIN Madrid SE (31/12/82)	103.4	103.26	102.48	102.52	[illegible]	[illegible]
SWEDEN Jacobson & P. (1/1/58)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWITZERLAND Swiss Bank Cpn. (31/12/58)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WORLD Capital Intl. (1/1/70)	—	161.8	162.0	162.6	[illegible]	119.4 (13/8)

(**) Saturday February 12: Japan Dow 8093.96. TSE 567.60.

Base values of all indices are 100 except Australia All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 industrials. § 400 industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed u Unavailable.

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

CANADA

[illegible]

ITALY

[illegible]

HONG KONG

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

AUSTRALIA

[illegible]

JAPAN

[illegible]

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 21

S—S—S

T—T—T

U—U—U

V—V—V

W—W—W

X—Y—Z

[illegible]

NEW YORK CLOSING PRICES

Continued from Page 21

X—Y—Z

[illegible]

FRANCE

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

GERMANY

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SPAIN

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

هكذا من الأصل

FINANCIAL TIMES SURVEY

Monday February 21, 1983

Alberta

The Province's economy, increasingly dependent on the oil industry, has been hit no harder than the rest of Canada but the shock has been greater. It believes, however, that the worst is over.

Hoping to be first to show an upturn

BY NICHOLAS HIRST

FOR THE BEST part of a decade oil rich Alberta was the fastest growing economy in Canada. It was known as the land of the blue-eyed Sheikhs. Ontario, accustomed to being regarded as the richest province in the country, looked on with envy.

Alberta was a get-rich-quick land. A place with low taxes where entrepreneurs were welcomed and prospered. Like a new gold rush, workers flocked to the province to take advantage of the highest wages in Canada. Between 1976 and 1981 the population grew by 21.7 per cent, faster than anywhere else in the country.

Calgary became the oil capital of the North. The big chartered banks put their world energy divisions there. It became a centre of energy expertise rivalling Houston. Cranes swung over ever taller buildings as the rectangular glass palaces of the new wealth rose to more than double the city's office space in five years.

Mistake

In 1975 with the world in recession, Canada's economic growth in real terms was 1.2 per cent. Alberta grew by 7.4 per cent. In 1980 the country as a whole stagnated. Alberta's gross domestic product rose 7.2 per cent.

"People thought for a while we had repealed the business cycle," said Lou Hyndman, the provincial treasurer.

In 1982 Albertans discovered their mistake. The glass palaces failed to fill up with tenants. Once it was impossible to find an apartment. Now there is a choice. House prices have fallen. Unemployment which average 3.8 per cent in 1981 has risen to 10.6 per cent, and in Calgary has risen a full point above the national average of 12.4 per cent.

Some of the newcomers have returned home. Yellow Alberta licence plates have become a common sight in the East. Estimates within the provincial government are that last year gdp was down between two and three per cent. The decline is less than Canada as a whole, but the shock is greater.

Retail sales which in recent years have shown the strongest growth and the highest level per capita in any province have been more depressed than Canada as a whole. High priced fashion stores have closed. Expensive restaurants, which once were doing a thriving trade, now have empty tables.

The economy has become extremely dependent on the oil industry. It produces 88 per cent of Canada's fuel. In 1971 extractive industries—more than 95 per cent oil and gas—accounted for 10 per cent of gdp. Ten years later, with sharp increases in worldwide and domestic oil and gas prices that share had doubled to 20 per cent. Oil was the driving force spurring a vigorous construction industry which in money terms, grew at 21.6 per cent for five years.

The oil boom investment, accounting for 36 per cent of gdp, against 23 per cent for Canada as a whole, led the Alberta economy. Last year it is estimated only to have risen in nominal terms and is expected to be lower in 1983.

Lou Hyndman put much of the blame on the Federal Government's National Energy Programme, which he says, "caused a massive dislocation in what was then the strongest industry in the country."

In October 1980 the Federal Government moved to increase its share of oil revenues and increase Canadian ownership of a foreign dominated sector. The NEP sharply changed the economics of the industry.

It discriminated against foreign oil companies, encouraging takeovers by Canadian businesses. After a fight between Alberta and the Federal Government an agreement was concluded in September 1981 on pricing and revenue sharing which sharply increased royalties and taxes.

It was ill-timed. Interest rates were soaring, there was a change in expectations of the future course of world oil prices. Canadian companies which went on a buying spree of foreign-owned oil groups were saddled with too much debt and left looking for ways to curtail expenditures. Foreign companies, faced with a double blow of a glut of oil on world markets and a discriminatory NEP, became disillusioned.

Oil company taxes in 1981 rose by 34 per cent taking C$3bn out of the industry. In 1982 oil and gas companies stopped spending. They could no longer afford to expand. Rigs stopped drilling. Cranes stopped swinging.

Mega-projects

Two mega-projects, the Alsands synthetic crude plant and the Cold Lake heavy oil plant, worth a combined C$30bn, which had been expected to fuel the province's growth, were cancelled. The effects rippled through the economy.

Realising they had hit the industry too hard, the Alberta and Federal Government cut their royalty and tax takes. The Alberta Government gave back C$5.4bn and the Federal Government C$2bn.

Without trying to spend its way out of recession, says Lou Hyndman, the Alberta Government tried to alleviate its effects. It put C$2bn into public works and for two years diverted the whole of the income of the Alberta Heritage Fund, equal to another C$2bn to subsidise mortgage interest rates to homeowners and small businesses.

As a result of the decline in expected royalties and increased spending, the budget deficit this year is estimated at C$2.7bn. The proportion of oil and gas revenues flowing into the Heritage Fund, built up for the day oil income would decline, has been cut from 30 per cent to 15 per cent. For the first time in a decade Alberta has borrowed on domestic markets and is expected to raise money internationally.

But Lou Hyndman believes the worst is over. Business confidence, which disappeared with the NEP is starting to return.

The Conference Board of Canada, an independent respected forecasting body, has estimated that the province will lead Canada out of recession with 4.7 per cent growth this year.

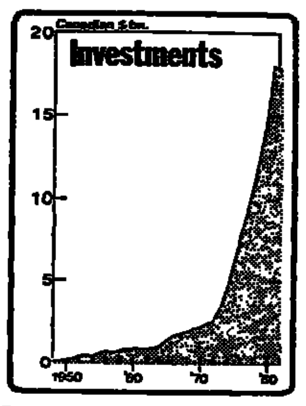
Lou Hyndman and has economists are not so optimistic. The growth potential in Alberta has been overestimated. The economy had become badly overheated. Labour was difficult to obtain and costs were soaring. To an extent the slowdown has been quietly welcomed as a necessary correction to more gradual growth rates.

"The last thing we want," explained Lou Hyndman, "is to come rocketing out of this situation at such a rate we will be right back up to very high interest rates and inflation. When Peter Lougheed, the provincial prime minister, in his end of year Press conference, predicted an end to the "credit card society" there is little doubt he was relieved to see it go.

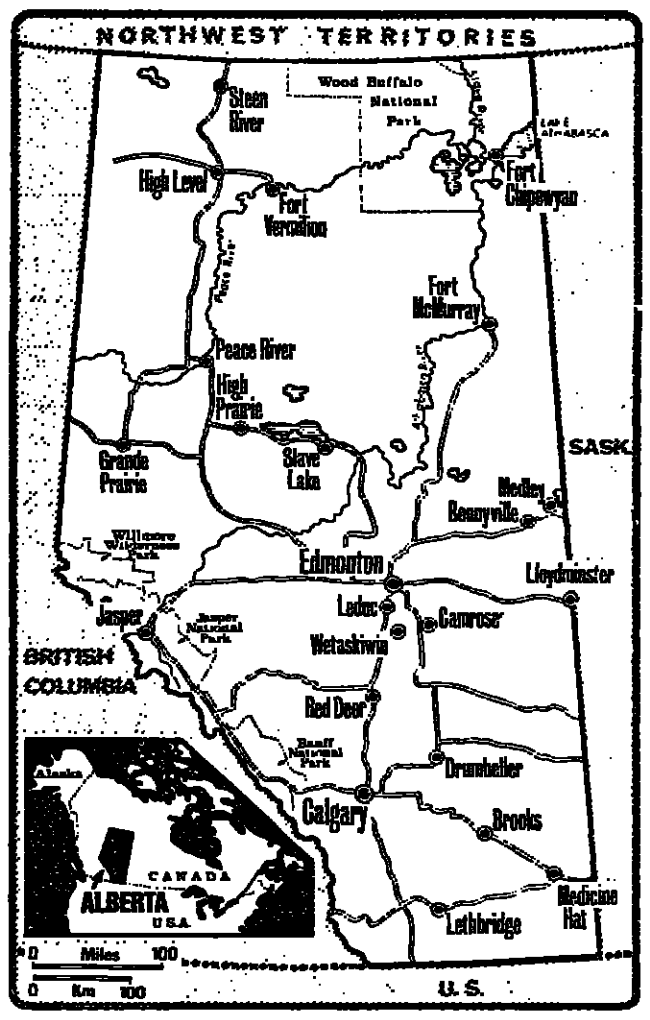
The overheating will take some time to dissipate, however. There is estimated to be sufficient commercial office space for companies requirements until 1986.

Elsewhere the economy is soft. Poor grain prices are depressing Alberta's agriculture and net farm income is expected to be the worst for 25 years in real terms in 1983. At the start of the fourth quarter last year, manufacturing, a third of which is in petroleum, coal and chemical products, was continuing to decline.

Over the longer term Alberta's future looks strong. A return to scarcer oil late in the decade could bring on frontier oil projects. The mega-projects could be revived. Prospects for increased gas sales to the U.S., now running below authorised levels through slack demand, are expected to pick up after 1985 and there are hopes that the new petrochemical industry will prove competitive. But, at the moment, the recovery is more evident in the hopes of the politicians, than it is in the economic statistics.



Between 1976 and 1981, investments in Alberta increased by an annual average of 20.5 per cent, more than double the rate in the rest of Canada.



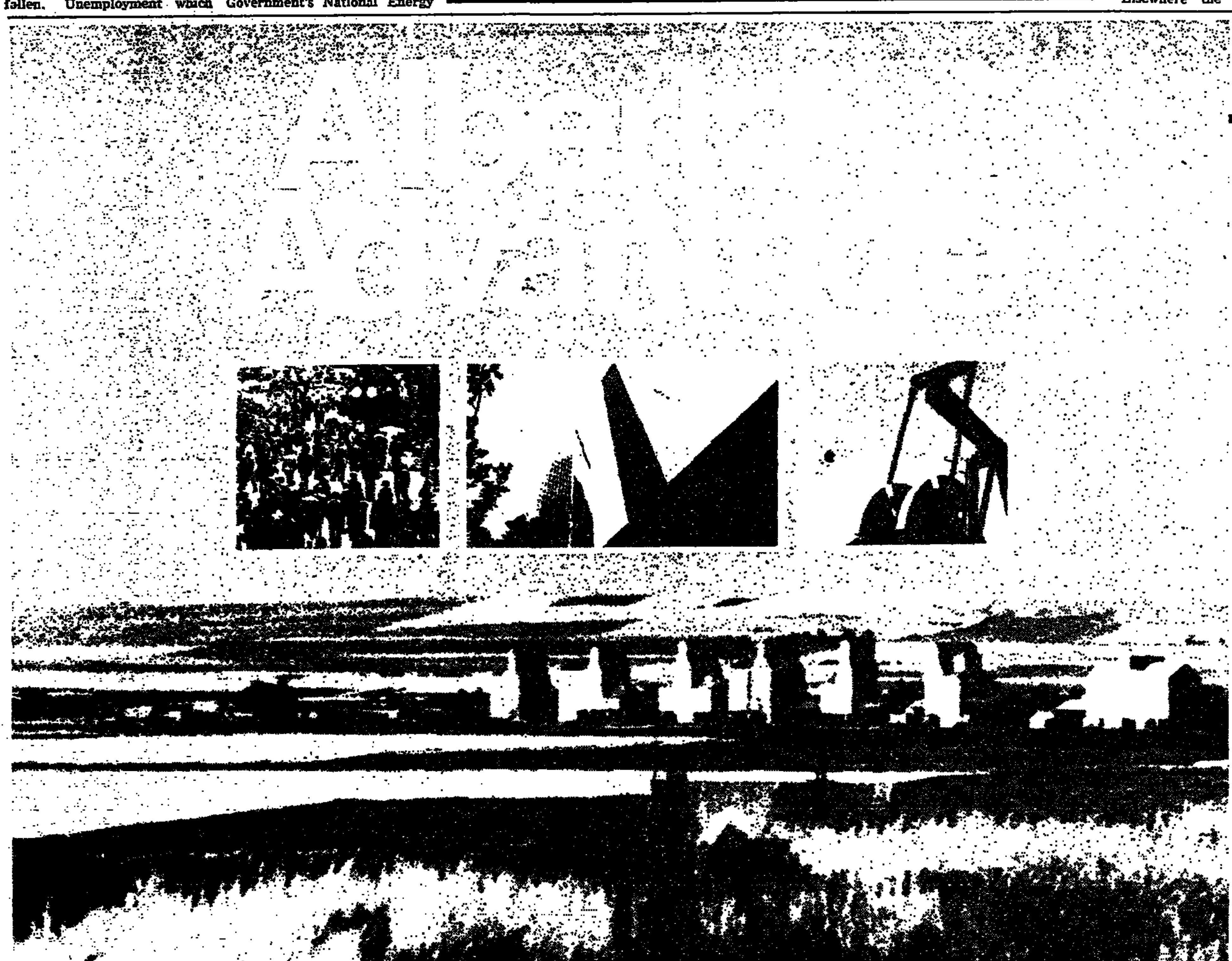
ALBERTA'S ECONOMIC DEVELOPMENT

	1981	1980	1976	Average Change 80-81	Annual 81-76
Real gross domestic product 1971 ($m)	15,254	14,597	11,096	4.5	6.6
Gross domestic product ($ms)	49,952	42,332	21,901	18.0	17.9
Personal income ($ms)	27,212	22,867	12,835	19.0	16.2
Investment ($ms)	18,360	15,048	7,229	22.0	20.5
Population (thousands)	2,227	2,145	1,838	3.8	3.9
Net migration (thousands)	50.2	56.1	41.9	−10.5	—
Labour force (thousands)	1,136	1,072	871	6.0	5.5
Employment (thousands)	1,093	1,032	837	5.9	5.5
Unemployment rate (%)	3.8	3.7	4.0	—	—
Average weekly earnings ($s)	391	342	237	14.4	10.5
Farm cash receipts ($ms)	3,921	3,133	1,842	25.2	16.3
Crude oil and equivalent ($ms)	8,928	8,498	3,825	5.0	18.0
Marketable natural gas ($ms)	5,728	5,240	2,101	9.0	22.0
Coal ($ms)	482	367	244	31.0	15.0
Manufacturing shipments ($ms)	12,976	10,634	5,216	22.0	20.0
Retail sales ($ms)	10,891	9,356	4,557	16.4	19.0
Housing starts (number of units)	38,470	32,031	38,771	20.1	—
Consumer price index (1971=100)	237.3	210.2	148.4	12.9	9.9

Source: Budget Address, Mr Lou Hyndman, Provincial Treasurer, March 1982

CONTENTS

Editorial production: Arthur Dawson
Design. Philip Hunt



ALBERTA II

How the energy sector is coping with Ottawa policy and the recession. A two-page review by **Richard Johns**

Oil industry fights constraints

FOR ALBERTA and its oil producers there is a somewhat bleak irony in the fact that a significant proportion of the province's capacity is not being used while crude is being imported into eastern Canada.

The situation in itself may not be at variance with the *National Energy Programme's* objective of achieving self-sufficiency by 1990. The oil will, after all, be there for future use but from the point of view of both the economy and the industry in Alberta, still complaining that it is tightly squeezed by the NEP introduced in 1980 despite its revision and modifications, the denial of the production is inexplicable.

In the course of 1982 the amount of "locked-in" crude varied from 50,000 b/d to a peak of 250,000 b/d last April. The cost to the national balance of payments was put as high as C$5bn by Gulf Canada in a recent advertisement in the Edmonton Journal criticising the NEP for holding back development of oil and gas resources.

"That money has left the country for ever," the company laments. At the same time the negative effect on the industry's cash flow has reduced the means needed for exploration and development.

The Government of Alberta, facing a revenue shortfall and rising unemployment as well as the continuing financial squeeze on its producers, is equally aggravated.

"It's ridiculous . . . like kicking yourself on the shins," Mr Peter Lougheed, the Premier, said. "Because you can only produce at a certain rate, that oil and money has gone out of the economic stream for 10 to 15 years."

Albertans see the situation as a prime example of what to them is the Federal Government's purblind obtuseness on energy policy. It arose because a throughput of about 100,000 b/d is needed to keep in operation the pipeline from Portland, Maine to Montreal—though the actual rate has fallen to 75,000 b/d recently. It provides an alternative source of supply and is regarded as strategically important.

The more expensive imports are subsidised by the *Petroleum Compensation Charge* which is levied to bring the price into line with that for domestic oil. The flow of Canadian oil westwards through the inter-provincial pipeline, with a capacity of more than 2m b/d, *is running at 1.1m b/d* while Albertan oil lies "locked in."

For Alberta, the problem has been compounded by the system of nominations used. Refiners make them three months in advance, but when the time comes are under no obligation to lift the amounts previously indicated—"tantamount to a one-way contract" in the words of Mr John Zaozirny, Alberta's Minister of Energy and Natural Resources.

Restoration of oil output to full potential, together with increasing gas sales, is the Provincial Government's main priority. Contacts on the issue have taken place with the Federal Government and the *National Energy Board* under whose jurisdiction it falls.

Alberta is making two proposals to alleviate the problems. Firstly, it wants the system of nominations changed so that there is some penalty for purchasers who do not honour nominations. Secondly, it is seeking the arrangement permitting its producers to export its light and medium crudes (its heavy varieties are negligible), equivalent in value to the imports via the Maine-Montreal pipeline.

There remains the challenge of maintaining the momentum, within the constraints of the NEP, of exploration so that the provincial economy can be regenerated and new reserves found. Once again in 1982 additions to them did not compensate for extraction at the rate of rather more than 1.1m b/d (85 per cent of Canadian output).

Reserves decline

The Alberta Energy and Resources Conservation Board calculated a decline in reserves of conventional oil from 4.4bn barrels to 4.1bn last year but they still constituted over two-thirds of Canada's total despite the build up of search in the Frontiers where the long-term growth lies. Government incentives are heavily orientated to them.

There have been no big—by Alberta's standards—discoveries since 1967. The exploration prospect is one of a number of small structures containing perhaps half as much oil again as proven reserves. A similar amount might eventually be extracted by enhanced recovery methods.

Mr R. H. Carlyle, senior vice-president of Gulf, says that a dollar invested in the Frontiers should be matched with one in Alberta reflecting the view of *the multinationals despite the* NEP tax regime which discriminates heavily against them in the Province.

The industry acknowledges the incentive constituted by the New Oil Reference Price—known as NORP—which gives the international rate for discoveries made from the beginning of 1981 (though not extra oil recovered from older fields by enhanced recovery schemes), as well as synthetic oil and output from the Frontier.

At C$42 per barrel "new oil" gives a net-back to producers of C$25 per barrel compared with the slender margin for "old oil." But the tax pressure on cash-flow is unanimously said to be too great.

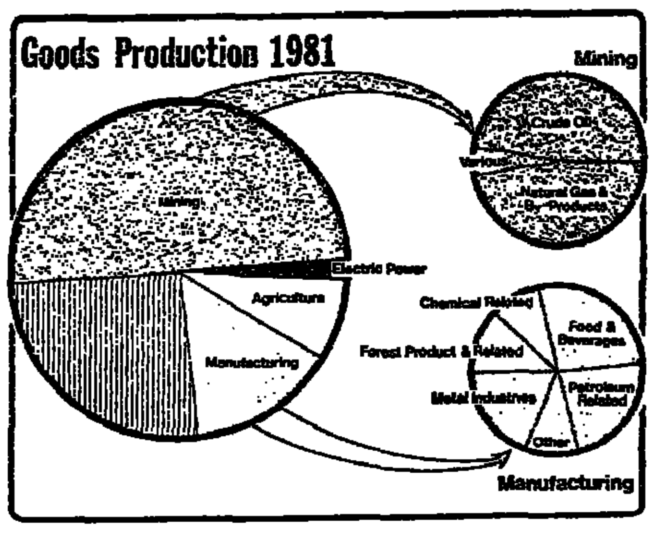
Establishing the differential for "new oil" was one of the gains from the agreement between Alberta and the Federal Government, which revised the NEP in its original form, finally reached in September 1981 only after Edmonton had started progressively cutting back conventional *crude production while holding* in abeyance oil sands and heavy crude projects.

There were others, too, giving the industry in Alberta an improved but still insufficient cash flow over the life of a five-year *deal. The revised pricing* schedule for "old oil" was another concession but it allowed the rate for both categories, pre-1973 and 1973-81, to advance only to 75 per cent of world rates by this year.

The Federal Government has still not abandoned its commitment to protecting the Canadian consumer from world market forces—*a policy that can* only mitigate against the objective of self-sufficiency by 1990. That goal, regarded as an illusory hope by the industry, is still based on the assumption—very much at the heart of the NEP—that the international rate will rise to C$77.48 by 1986.

The NEP is still anathema to Alberta and the industry especially, not the least because of its discriminatory provisions against foreign companies. The belief in Edmonton and Calgary is that the Federal Government knows it made a mistake but now cannot retreat for political reasons.

Mr Lougheed is reasonably optimistic about the prospects *for the industry but hanging* over them are doubts about the world oil price. Even a modest reduction would throw out of balance the complex and awkward fiscal structure on which the fortunes of the industry and the revenues of the province depend. A collapse would have dire implications for both.



Oil sands plans suffer setback

NEWS OF THE final collapse of the Alsands synthetic crude project last April was received with sadness rather than shock by Alberta. Two months before Shell Oil of Canada's withdrawal, five out of the eight original partners in the venture, collectively holding a half share, had dropped out.

Over the previous year the fate of the scheme designed to produce 137,000 barrels a day had looked increasingly problematical as the oil market sagged and interest rates soared.

The bitter irony was that the project would probably have gone ahead if the Federal Government had put terms eventually offered three years before at the outset—and at a very much cheaper cost than C$11bn finally estimated.

Previously, in 1981, Esso Resources had shelved its 140,000 b/d heavy oil project at Cold Lake. Thus, the projection made by the National Energy Council of oil output from non-conventional sources rising from 326,000 b/d in 1985 to 723,000 b/d in 1990 looked optimistic then, anyway. It is partly to blame for the fact that only marginal progress is likely to be made towards those goals.

In the process further commercial exploitation of what might be regarded as Canada's biggest single economic resource has been deferred. Bitumen and heavy crude in the oil sands of Alberta are reckoned to have a full potential of 1,000bn barrels. Nothing like that could conceivably be recovered.

According to present thinking, anything from 25-50bn barrels can be mined, according to the techniques now in limited use. A proportion of the remainder "in situ" at depths of over 200 feet which cannot be mined, might be extracted by techniques currently being researched and evolved.

In addition it is thought that the Devonian carbonate—or limestone—geological formation of northern Alberta could contain an equivalent oil potential.

Neither the Cold Lake or Alsands projects, as originally conceived, should necessarily be regarded as dead. Sooner or later, they will re-emerge in some form when conditions and prices are right. There is a general view that the time is not ripe for the so-called "mega-projects."

Pilot plants

In the meantime, the collapse of the two which were planned for this decade has tended to obscure the fact that a significant proportion of Canada's oil output—some 10 per cent—comes from exploitation of oil sands on a commercial scale.

There are a number of promising pilot plants in operation, some of which extract bitumen "in situ" and produce quantities of synthetic crude; one producing heavy oil is semi-commercial.

Output of synthetic crude from Alberta's oil sands dates back to 1967 when Suncor became the first venture to extract bitumen and refine it into synthetic crude with a gravity of 35 degree API and a sulphur content of 0.25 per cent.

Sun Oil was the only member of the bigger conglomerate which first applied to persevere with the project. In 1981 it sold 25 per cent of its equity to Ontario Energy Resources.

Initial investment was C$335m for a capacity of 45,000 b/d. A capital outlay of some C$50m a year has been needed for plant maintenance. Capacity was increased in 1981 at a cost of C$185m.

Currently, Suncor is engaged in an expansion of its mining operation, aimed at adding a further 90m barrels to proven reserves which at the end of 1981 totalled 340m barrels.

On the strength of the investment Suncor has extended its lease by four years to 2005. Not surprisingly this pioneering project, located in an especially harsh environment, has been beset with technical problems over the years.

In 1982 operations were seriously affected by an explosion and fire in the compressor house which eliminated capacity to make hydrogen and desulphurise the crude for the first six months.

Full prices

The National Energy Board only gave permission to export to the U.S. 25,000 b/d. But from July output recovered to give an average of 34,300 b/d synthetic crude output for the full year.

The main factor in restoring profitability (final results are not yet available) was authorisation under a *revision of the* the NEP for Suncor to charge the full world oil price—C$42 per barrel compared with C$26 in 1981.

If it had been allowed to do so from 1973 onwards Suncor would have achieved a return on its capital expenditure on the oil sands project. Even with the full price, it is unlikely to achieve that aim until 1984 at the earliest.

The approval for Alberta's second commercial oil sands project, Syncrude, was made as early as 1964 by the consortium led by City Services which was in the process of establishing a pilot plant. Not until 1972 was the go-ahead given by the Alberta *Energy Resources Board*.

The plant was completed in 1978 at a cost of C$2.5bn (with another C$800m spent on utilities and a pipeline) with a rated capacity of 109,000 b/d. Other leading members of the group now are Exxon, Gulf, Petro-Canada, and Alberta Energy Company.

Syncrude purchased Suncor's mining technology but benefited from other developments, in particular fluid coking. Output of 32 degree synthetic crude rose from an average of nearly 50,000 b/d in 1979 to rather more than 85,000 b/d in 1982. This year it hopes to produce in excess of 95,000 b/d.

Syncrude is engaged in a $150m investment aimed at raising maximum capacity to 129,000 b/d. At current rates of production the cost per barrel is in the region of C$29 but at full capacity this would fall to rather less than C$16.50. As an operating company it does not produce results. But the company reports of the partners which have isolated their earnings from the operation show them to have made a modest return on their investment—with percentage depending on their amortisation period and equity-debt ratio—in 1981.

Syncrude, unlike Suncor, has been permitted to charge the world price since 1979. Its two leases are reckoned by the company to contain recoverable reserves of 1.1bn barrels or enough to support the project for a duration of 25 years.

Both interest and expenditure on experimental schemes remain at a high level with more than a dozen projects being carried out.

However the economics of development evolve, Alberta can at least rest assured that bitumen and heavy oil in the province's sands have a potential perhaps four times those of the world's conventional reserves.

Natural gas waits for U.S. upturn

LATE LAST month the National Energy Board recommended a substantial increase in authorisations for Canadian natural gas. The proposal was finally made after a protracted review of the federation's resources and requirement, dated back to March, 1982.

It would double availability from 45bn cu metres in 1982 to 93bn cu metres in 1990. Such an expansion could give an economic benefits to Canada of C$17bn in current dollar terms over the next decade, according to the NEB. The announcement was given a guarded welcome by the industry.

That was quite natural given the estimated 40 per cent of existing capacity linked to the distribution system but not being utilised—quite apart from wells not tied into the system.

There should be no problem about the recommendations receiving the approval of the Federal Government, despite its previous misgivings about allowing more exports.

Blessing by the U.S. regulatory bodies poses a far more serious question mark. As it was, the recommended authorisation only covered half the volumes sought in the 26 applications before the NEB. Moreover, it would — if practicable — have little impact in the short-term, with permitted volumes rising by only 600m cu metres in 1983 to 21.8bn cu metres in 1986.

The slow start to the graduated increase laid down in the NEB's schedule realistically reflects the basic problem — the immediate absence of any growth potential in the U.S., Canada's only export market as yet and the only one accessible at present. It has been providing for about 45 per cent of American demand in recent years.

In 1982, the volume delivered across the border by pipeline was only 47 per cent of the authorised amount, a little under 50m cu ft per day and rather less than in 1981 — while domestic deliveries stagnated at a little over 100bn cu ft p/d.

One does not have to look hard for a reason. American demand has fallen not only because of economic recession, and competition from fuel oil. The U.S. still has a surplus of its own.

Canadian gas, meanwhile, is priced at U.S.$4.94 per thousand cu ft at the border — fixed by treaty and at Canada's insistence — compared with an American clearing price of U.S.$3.50.

Canadian gas is competitive in contiguous areas of the U.S. and as a supplement to the American domestic distribution system.

Alberta is justifiably confident that the situation in the U.S. will turn in its favour by the middle of the decade as a consequence of the decontrol of American prices and the prospect of demand for gas exceeding supply across the border.

In the meantime, the Albertan Government is trying to increase sales across the border regardless. Referring to the NEB recommendation, Mr Peter Lougheed, the Premier, said: "That's one hurdle out of the way — if we had markets to export to. What we are working very aggressively at, both with the industry and the Federal Government, is to find ways of marketing our gas in the present confused market situation in the U.S."

In this connection, Mr John Zaozirny, Albertan Minister of Energy and Natural Resources, points to indications that the Federal Government is prepared to contemplate some flexibility over the U.S. border price.

Linked to the world price of crude, it has inevitably suffered from much cheaper heavy fuel oil. There is general recognition for the need for a reduction in the *$4.94 set for Canadian gas* at the border if exports are to be maintained and increased over the next couple of years.

Exports important

Exports are of especial importance to all Alberta producers under the complicated price formula in force since the province reached — in September 1981 — its agreement with the Federal Government which drastically modified the National Energy Policy presented nearly a year before.

Currently, producers receive a gross revenue of C$2.29 per million cu ft plus C$1.20 for exports. Proceeds from them, after deduction of transmission costs, are shared out on a pro rata basis to all of them.

After payment of royalties and tax, operating costs and the payment to the pipeline companies distributing the gas the producer is left with something like C$1.40 at present. Under the Canada-Alberta agreement, which also did away with the proposed gas export tax, scheduled increments of 50 cents annually were set in respect of gas sold in Canada. That is in line with the NEP's erroneous assumptions about the increase in world oil prices — which are still being observed.

Alberta also secured a pledge in 1981 that the price of gas should be no more than 65 per cent of that of oil in thermal equivalency. The provision has not done much to boost domestic sales of gas, but it has meant — because oil prices have not gone up — a drop in the federal tax of 29 per cent at the beginning of this month.

No less than 20 per cent of the total increased availability of gas under the NEB's recommendations is accounted for by its conditional approval of Dome Petroleum's venture to sell 4.65 cu m. a year in the form of liquefied natural gas (about 2.9m tonnes) to Japanese utilities over a 15-year period, which could be increased to 20.

Financing the deal apparently presents no difficulty to the company whose big debts are being rescheduled by the Federal Government and a group of leading banks.

The Japanese are apparently prepared to take responsibility for the financing of the gas liquefaction plant and terminal on the coast of British Columbia. Dome has to satisfy 16 regulatory conditions by January 31 next year.

In Alberta, doubts as to whether the return will be sufficient seem widespread. Mr W. F. Richards, Dome's president, is confident about the outcome. He says: "Logic indicates that agreement will be reached. It would be surprising if the 16 conditions had not been made—there is nothing extraordinary about them."

At the same time the incentives and tax reliefs given to the industry by the Alberta and Federal Governments are helping to maintain the momentum of discoveries in what is a heavily gas-prone province, where probably half as much again as reserves at present proven remains to be found. But a further easing of the fiscal regime and other assistance are of more vital relevance to oil for the time being.

Petrochemicals grapple with loss of competitive edge

THE BOUNCING optimism—even euphoria—which centred on the development of Alberta's petrochemical industry until just over a year ago has now completely evaporated to be replaced by a sombre realism.

In 1981, investments worth about C$10bn were in prospect. Now the value of projects under construction are worth less than C$2.5bn. Last year saw the postponement and cancellation of plans to spend nearly C$5bn.

In retrospect it is surprising that such an enormous expansion should have been seriously contemplated after a decade of rapid growth and the emergence of the industry as a net exporter in 1980. Inevitably, plans have been put back or cancelled as the recession led to overcapacity elsewhere, especially in the U.S., the main export market, and countries of the Pacific Rim.

A more important factor, probably, has been the turnabout in Alberta's competitive position. Underlying the ambitious growth of the gas-based industry was the assumption of an inherent advantage deriving from supplies of cheap ethane.

The fact that Alberta's gas prices were set at a price equivalent on a thermal basis to 65 per cent of the international rate for oil promised to give its burgeoning industry a competitive edge. Moreover, its petrochemical plans receive ethane from a number of "straddling" plants, which extract gas before the stream is pumped onwards by pipeline, at no more than the cost of service.

Two years ago it was reckoned that Alberta could produce ethylene, one of the main building blocks in the industry, 25 per cent cheaper than manufacturers on the U.S. Gulf Coast. That advantage has gone into reverse for the time being.

One factor beyond Canadian control has been the big fall in prices of feedstock in the form of ethane and liquid petroleum gas from refineries enjoyed by U.S. Gulf Coast producers.

Sorely-pressed

For the same reason the sorely-pressed naphtha-based industry in central Canada has had its costs reduced while those incurred by Albertan basic ethylene and methanol plans have risen sharply because of the National Energy Policy.

For some reason the interests of the petrochemical industry were overlooked in the negotiations leading to the September 1981 agreement between Alberta and the Federal Government which led to the revision of the NEP. The cost of ethane has risen in line with increments laid down for oil prices while the world rate has been static.

The Canadian Ownership Tax on oil and gas to provide funds for extending national control over the industry has also borne *directly* on petrochemical manufacturers. Taxes on users now account for about half of the variable cost of ethane.

As a result, Alberta has lost its advantage. The newsletter Chemical Insight recently concluded that Alberta's price of ethylene was now 10 per cent higher than ethane-based material produced on the U.S. Gulf Coast. The price of Canadian ethylene rose from U.S. 17.8 cents per lb in 1980 to 25 cents last November while U.S. prices declined from 22.2 cents to an average of 20 cents respectively.

Looking ahead the industry is worried about the supply arangement with the operators of the units at Empress, Cochrane and Edmonton—a system predominantly controlled by Dome Petroleum and Nova, Alberta Corp.

Gas producers are pressing to instal their own facilities upstream thus breaking this system. Provisional approval has been given to projects of Esso Resources and Canadian Hunter, both of which are weighing the economics but a policy decision has been delayed until summer.

Nova, whose interests constitute the basis of Alberta's petrochemical industry, still takes an optimistic view of its medium-term prospects, looking to a recovery in demand and a restoration of a feedstock price advantage by the mid-1980s.

In the first nine months of 1982 its Novacor Chemicals subsidiary, in contrast to other companies, made an operating profit of 12.6 per cent on sales of C$338m, a result which did not include proceeds from its half share in Alberta Gas Chemicals.

The group laid the basis for an ethylene-based industry with its first C$350m plant, completed at Joffre in 1979, with a capacity of 544,000 tonnes per annum. All of the output is contracted for sale to Dow with a proportion devoted to production in Canada of derivative products. Its second (C$575m) unit, with a capacity of 680,000 tonnes a year, is scheduled to come on stream next year.

Two years ago prospective producers of intermediates were vying with each other to secure a share of its output. By 1982, the feared shortage had been replaced by apprehensions of a surplus. Now its capacity has been accounted for, partly by Dow and partly by plants designed to manufacture intermediates in Canada. But Nova, having obtained approval for a third plant at Joffre, also with a 680,000 tonnes capacity, has postponed implementation until firm purchasing commitments are arranged.

Deferred

Similarly, the joint venture project planned by Esso Chemicals Canada, the Alberta Energy Company and Hudson's Bay Oil and Gas to produce 700,000 tonnes per annum at Redwater from 1985 has now been deferred indefinitely.

Nova also pioneered Alberta's methanol-based industry by getting its first plant at Medicine Hat into operation in 1974. A third was completed in 1981 giving a combined capacity of 720,000 tonnes a year. Celanese's methanol plant at Edmonton, said to be the largest facility of its kind in the world with a capacity of 750,000 tonnes a year, went into production recently.

Biewag of West Germany intends to build one twice the size with a capacity of 1.5m tonnes a year at a cost of C$650m, based at Waskatenau with operations starting up in 1985.

Last autumn approval was given, subject to a proviso that a sales contract guaranteeing disposal of the output is submitted to the Alberta Government. The Government has still not been satisfied on that score.

Projects to be completed this year include the fertiliser plants being built by Imperial Oil, Exxon's majority-owned affiliate at Red Deer and Sheritt Gordon at Fort Saskatchewan. Planned to come on stream next year is Shell Canada's benzene and styrene monomer plants associated with its synthetic refinery near Scotford.

In 1984, Nova should complete a facility for making low density polyethylene and Union Carbide its ethylene glycol plant.

Uncertainty surrounds when construction work will start on several other large projects. Beyond that, there is a long list of others which have been deferred or abandoned.

Sooner or later most of them will probably be resurrected. But that could depend on the Federal *Government*, as well as on the economic climate.

Heritage Fund eases hardship

AT A time when the decline in the province's consumption of beef is attributed to higher interest rates, it is not surprising that the growth of the Alberta Heritage Savings Trust should have been slowed by economic recession and stagnant demand for electricity.

Financial resources, which previously would have gone to swell its balance sheet, are being diverted to meet budgetary requirements and ease hardship among citizens.

AHSTF was established as an investment instrument in 1976 to save some of the revenues generated by Alberta's wasting hydrocarbon resources for future generations, to strengthen and diversify the provincial economy, and to improve the quality of life in Alberta.

At the end of last September it had accumulated assets of nearly C$12.7bn, up from the C$11bn recorded at the close of fiscal 1981-82, but subsequently its prospects for expansion have been limited.

Its value had been growing at a rate of C$2.5bn annually but because of fiscal measures taken last summer and in the absence of others the increase over each of the next two years will be limited to C$600-800m.

By the autumn of 1984, it is assumed, economic recovery will be under way — a hope depending on Washington and Ottawa.

In the last fiscal year (ended March 31) the trust fund's total assets grew by 27 per cent from C$8.47bn to just over C$11bn. The total includes a number of capital projects not earning income and held on the books at their original cost value of C$1.3bn — such as hospital facilities, parks and research foundations.

At the beginning of 1982-83 the Government projected a budget deficit of C$700m. To that was subsequently added another C$1.7bn covering the bulk of the tax concessions for the oil and gas industry announced in May. AHSTF suffered.

First it was decided that for the two year period from last September the trust fund's income, projected for 1982-83 at C$1.4bn, would be devoted to boosting the Government's general reserve. Second, to make good the rest of the shortfall and as part of the "Economic Resurgence Plan"—most specifically the protection of home-owners, small businesses and farmers from the ravages of high interest rates—a cut in the proportion of royalties devoted to AHSTF to 15 per cent was approved by the Legislature.

In practice and to a large extent, the switch of revenue and the trust fund's income means that the Government will be undertaking directly financing operations which previously AHSTF had facilitated indirectly—but on a larger and broader scale.

Four divisions

At the end of 1981-82, 57 per cent of AHSTF's assets were in the Alberta investment division, one of four into which its activities are divided. All but a small portion of the total was made on behalf of Crown Corporations.

Included among them are the Home Mortgage Corporation (C$1.9bn outstanding at end 1981-82), the Agricultural Development Corporation (C$548.2m) and the Opportunity Company (C$125.8m)—entities providing loans at concessionary rates of interest for home buyers, farmers and small businesses respectively.

Loans to them and all other organisations, apart from the capital projects not yielding income, have been made at commercial rates of interest, however.

Assistance provided to home-owners, farmers and small businessmen has been considerably extended. In the past, for instance, the Home Mortgage Corporation has borrowed from the AHSTF at 12 per cent and lent at 10 per cent. Now the Government is covering up to six per cent of interest rates over and above 12½ per cent.

Covered also by the Alberta division is the Housing Corporation which is involved in accommodation of retired people and low-income families. By end 1981-82 it also had outstanding debentures on behalf of the Telephones Commission amounting to C$1.47bn and also substantially funded the Municipal Financing Corporation. An umbrella organisation, it has for many years provided the townships of Alberta with all their borrowing requirements.

Over 95 per cent of new funds in 1981-82 went to the Alberta division. Now it is an even bigger priority.

Bleak outlook for coal output

ALBERTA POSSESSES 75 to 80 per cent of Canada's coal reserves but its current share of output is little more than 45 per cent. The discrepancy points to the problems facing fuller exploitation of its ample resources.

The province has an abundance of sub-bituminous thermal coal which provides for all its electricity needs, except those of the city of Edmonton, at cheap cost. Sales elsewhere in Canada are limited to some, 2.5m tonnes a year of high volatile bituminous coal supplied to Ontario.

Exports of its coking coal are so far limited almost exclusively to Japan where Alberta's mines face stiff and growing competition from neighbouring British Columbia on the Pacific coast, quite apart from the U.S. and Australia at a time when lower oil prices are reducing the need to switch from heavy oil for power generation. The steel industry is also at a low ebb.

In 1982, at least, output held up well. In the year to the end of November it amounted to 17.98m tonnes compared with 16.58m tonnes in the same period of 1981.

Japanese interest

Nearly all the increase was accounted for by sub-bituminous coal, up from 10.4m tonnes to 11.6m tonnes while production of bituminous or coking coal rose only marginally from 6.13m tonnes to 6.32m tonnes despite the fact that Cardinal, an important mine, which had been closed for five months in 1981, was back in full operation. Prospects, however, over the next two to three years are looking bleak.

The bituminous mines of Western Alberta, situated in the foothills of the Rocky Mountains, can hardly be unaffected by two projects in British Columbia, Quintette Mining and Bullmoose which involves a Japanese equity interest and appears to have a large proportion of their prospective output, 5.7m tonnes and 1.7m tonnes respectively, destined for the biggest market within the Pacific Rim under long-term contract.

As it is, several mines have been badly affected by a shrinking market in which Japan very much holds the whip hand and is proving a tough bargainer.

Output at the McIntyre mine, which has a capacity of 2m tonnes, has dropped to 800,000 tonnes. To compound further the problems of existing producers which are losing money and paying off workers, the new Gregg River mine in Alberta itself is being commissioned in April when, it is reported, it will start deliveries to Japan at a rate of 850,000 tonnes a year and should be able to reach full capacity.

The significant fact, which has not been lost on other operators, is that it is 40 per cent owned by Japanese steel interests and appears to have an assured market.

Transportation bottlenecks have increasingly become a constraint. Alberta's high quality, low-sulphur coal may be generally more easily accessible by strip-mining techniques than British Columbia's but it will always suffer from the inherent disadvantage of being distant from the coast.

In contrast to the somewhat gloomy outlook for mines geared to the export market, TransAlta, the largest privately-owned utility in Canada, which generates 80 per cent of the province's electricity is engaged in developing deposits of thermal coal on a large scale to satisfy Alberta's voracious demand for electricity.

It has been growing over the past few years at anything from 7 per cent to 10 per cent, largely as a result of industrial development. As yet the rate has not been materially affected by recession. TransAlta owns all its coal supplies. It is able to feed its plants at Sundance and Highvale with coal from adjacent mines at a cost of C$7 and C$7.60 per tonne respectively.

It is now commissioning or constructing power plants involving the development of thermal coal-producing facilities with a capacity of over 15m tonnes.

The Energy Resources Conservation Board calculates that Alberta's recoverable reserves of sub-bituminous coal to have been 15.5bn tonnes at the end of 1982 compared with the 13bn tonnes registered a year earlier when their life index was put at over 1,000 years.

Those of bituminous coal were put at 3.5bn tonnes, enough to last for over 400 years at present rates of consumption. It is no wonder that the province, through the publicly-financed Alberta Research Council, keeps itself in the vanguard of research into coal liquefaction.

ALBERTA SURVEY

- ☐ City of Edmonton
- ☐ Town of Stony Plain
- ☐ City of Calgary
- ☐ Torode Limited
- ☐ Alberta Economic Development
- ☐ Edmonton Northlands
- ☐ Town of Stettler
- ☐ Edmonton Research and Development Park

I WOULD LIKE TO RECIEVE MORE INFORMATION ABOUT THE ADVERTISERS INDICATED

Name: ....
Title: ....
Company: ....
Address: ....
....
....

RETURN COUPON TO:
FINANCIAL TIMES LIMITED
Bracken House, 10 Cannon Street
London EC4P 4BY, ENGLAND
Attention: Mr. Neil Ryder

Banks hit by losses on energy loans, says **Nicholas Hirst**

Lending spree brings headaches

THE FINANCIAL community in Alberta has been drawing in its horns after several years of explosive growth. On the back of the oil and gas boom, Calgary became the financial capital of Western Canada.

The Royal Bank, the Toronto Dominion, the Canadian Imperial Bank of Commerce and the Bank of Montreal, all have specialised energy lending divisions there.

Alberta has the second highest value of outstanding loans in the country. With less than 9 per cent of the population, 25 per cent of Canada's outstanding loans of C$72.9bn (U.S.$59.5bn) have been made *in the province. In terms of* loans over C$50m at C$8.3bn it pushes Ontario, with 26 per cent of the population, into second place.

Its high concentration of large loans reflects the high exposure to large scale oil and gas projects and the financing of the encouragement given by government to the takeover of foreign-owned oil companies.

Some C$9bn moved out of the country in response to the Canadianisation policy of the National Energy Programme. The lending spree in 1981 helped give the big five Canadian chartered banks the best year in their history, but it gave them headaches for the future.

"As it turned out," said Ross Curtis, vice president in charge of the Bank of Montreal's petroleum division in Calgary, "the debit side was that some of that debt couldn't be serviced."

The well-publicised troubles and proposed C$1bn rescue for Dome Petroleum is only one of a sheaf of acquisitions which have run into trouble. Of the C$2.2bn of loan loss provisions made by the big five Canadian banks in 1982, Alberta must account for more than its fair share

With the boom in oil and gas came a boom in property as the oil companies and service groups moved into Calgary and Edmonton.

"A lot of people got into real estate speculation who didn't have the expertise to do so," said Gordon Lewis, vice-president and regional general manager of the Canadian Imperial Bank of Commerce in Edmonton.

The CIBC has two regional centres in Alberta, one in Calgary, the other in Edmonton. The Edmonton centre is less involved in direct oil and gas lending, servicing government and the more diversified industries there. But it wasn't isolated from the boom. It became almost too easy to make money.

"I think we as bankers also got caught up in the euphoria," Mr Lewis said.

For the banks, the downturn has meant a return to the basics. Special highly-trained teams have been moved in to work out problem loans and there is a tendency to return high level lending decisions to head office.

That tendency is likely to slow the growth of the province as a centre of financial expertise. There are doubts whether the new head of the Bank of Montreal's petroleum division, who replaces Mr Curtis on his retirement, will be based in Calgary.

It cannot help the attempt by the Calgary Chamber of Commerce to persuade the Federal Government to make the city an international banking centre with tax concessions for offshore deals similar to New York.

Bigger niche

During the boom years there was a small but significant growth of new financial houses to provide a base of local understanding and expertise. In 1976, the Canadian Commercial Bank was set up with a head office in Edmonton. A wholesale operation, with largely institutional shareholders, it saw a niche in the market for companies with C$5m to C$50m in annual sales and credit needs from C$1m to C$10m.

Robert Splane, its vice-chairman, says that the niche actually proved bigger than the original market surveys suggested. Foreign banks, which have followed in its wake have tended to go for bigger loans.

The CCB's assets grew from C$249m in 1978 to just short of C$2bn last year. Its image has been hurt by the resignation of its chairman, Mr Howard Easton, prompted by concern over two private investments he had made in companies associated with the controversial Leonard Rosenberg.

Mr Rosenberg controlled two trust companies whose assets were seized by the Ontario provincial government to protect depositors' interests. In a highly unusual step, Mr Gerald Bouey, the Governor of the Bank of Canada made a statement assuring the financial community that the CCB was sound.

The Calgary-based Northland Bank was reorganised into a wholesale operation from a co-operative by the Merbanco group. Robert Wisener, a managing partner with Merbanco saw the need for a locally-based operation specialising in corporate finance and was proved correct.

The financial community believes growth will return. It is weathering the storm. Robert Peters and Co, a small, aggressive Calgary-based stockbroking group which has built up a formidable reputation in the oil and gas sector, made money last year, despite a 27 per cent decline in the oil and gas index on the Toronto Stock Exchange.

Mr Lewis of the CIBC in Edmonton said: "We are starting to see a trend back up again. There is a clear indication that the strong and well-managed companies are starting to pull themselves up again."

Downturn sharpens in building sector

THE ALBERTA Construction Association's annual forecast for work during 1983 carries the headline "Recession with a vengeance." It is an apt title. An industry which had grown solidly in the province for about 30 years and boomed from 1977 until last year is suddenly running out of new projects.

There is a glut of office space. In Calgary, where the boom in office building really took hold with 10m square feet of space being added in the course of five years, some 27 projects with a further 14.5m square feet of space have been postponed or cancelled. Initial ground work on some, including the second tower of the Bank of Montreal's First Canadian Centre, had been started, but tenants are no longer to be found.

It is estimated there is at least 2m square feet of office space in Calgary without tenants, 10 per cent of the total space. By the end of 1983 there is likely to be 3m square feet of vacant space.

On top of that many tenants would like to lease space they have taken, now surplus to their needs, to sub-tenants, if only *they could find takers.* In Edmonton, the situation is similar but on a smaller scale with only about a third of Calgary's vacant space.

Into reverse

Industrial building has slowed as the economy has gone into reverse. At one time there were C$12bn of petrochemical plants to be completed. Now that figure is down to about C$6bn and as the work is completed there is little to replace it.

Mr H. L. Thomas, president of Cana Construction, the second largest construction company in Western Canada, which is completing a 56-storey building to be the headquarters of Petro-Canada, the state-controlled oil company, says he has never seen the industry as depressed as it is at the moment.

He believes however, that a correction had to happen: "The rapid expansion was creating overheating of both prices and labour costs."

Unemployment in the industry has risen sharply. In September 1981, there were 117,000 people employed on construction work and the unemployment rate was 3.3 per cent. It was difficult to find the right kind of skilled labour.

By the end of last year only 90,000 workers were employed in the industry and the unemployment rate had soared to 22.4 per cent, the highest of any sector in the province.

To alleviate the sharpness of the downturn, the Alberta Government last year announced a C$2bn public works programme, Mr Norman Fleming, deputy minister of public works outside the petrochemical industry, the public sector now accounts for between 25 and 30 per cent of new projects.

It is not easy to say when the upturn will come. There are some signs that lower mortgage rates may be spurring a rise in starts of single detached houses, but the apartment building business remains extremely depressed.

N. H.

Farmers feel the pinch

BEFORE THE oil man came to Alberta the rancher and farmer reigned supreme. Now agriculture accounts for slightly less than 5 per cent of the gross domestic product. It remains extremely important, however, for more than 37 per cent of the beef, cows and heifers in Canada are to be found in Alberta.

The province has 29 per cent of Canada's occupied farm land. It grows 33 per cent of its winter wheat and 23 per cent of its spring wheat, 43 per cent of the country's rapeseed and 47 per cent of its barley.

Mechanisation and improved cultivation techniques have sharply increased the harvest. Production of the principal crops rose from 10.4m tonnes to 15.1m tonnes over the past decade with wheat production almost doubling.

As the Albertan economy boomed on the back of the oil and gas industry increasing numbers of the new rich moved out of the towns to buy smallholdings taking advantage of tax reliefs available to "hobby farmers."

Land prices rocketed. Between 1976 and 1981 the value of farmland and buildings rose from C$10.6bn (U.S.$8.65bn) to C$30bn. The average Albertan farmer now has more than C$500,000 paper worth in land and buildings alone. But the value of his land is small compensation for the increasingly poor returns from his labour. *The Albertan farmer is feeling* the pinch.

"We are not getting enough income to offset the increases in prices of fertiliser and fuel," said Ralph Cossey who farms 2,450 acres outside Edmonton. "If we put all the money we have invested here in the bank and took the interest we wouldn't have to do a damn thing."

It is a common complaint. In government and even in the agricultural associations, officials warn that the farmer is a natural complainer, that for him nothing ever goes as well as it should.

This time, however, the farmer has something to complain about. The worldwide recession, rising interest rates and the ever increasing cost of new machinery and repairs have taken a heavy toll.

Some 60 per cent of the beef cattle in Alberta is on grain farms. During the cold winter months much of the barley produced in the province is used to fatten the livestock. The system should give the farmer some protection against the price swings in the agricultural cycle.

"Usually when livestock was bad," said Cliff Wulff, executive director, international marketing at the Alberta Department of Agriculture, "grain was good, but it so happens that both sides are hurting at the same time."

Across the province farmers are hanging on, waiting for an upturn. "I would be surprised if anyone is making money," said Hugh Wearmouth, a rancher near Calgary. "Cattle prices are depressed - but the prices of things we have to buy are not."

Lower income

Projections for farm income from last year and in the current year, in the understated phrase of the Alberta Agriculture Department's statistics branch are "not encouraging." Net farm income in 1982 is estimated at C$735m, down 25 per cent on 1981 and a further fall of 14.3 per cent to C$630m is expected this year.

In constant dollars the net farm income in 1983 will be the lowest recorded in Alberta for 25 years, but in 1957 net income amounted to 36 per cent of total cash receipts, in 1983, net income will be only 18 per cent of cash receipts.

Had the lean years followed years of plenty the farmers would be in a better position. Grain producers had a good year in 1981. Cash receipts from crops exceeded livestock for the first time since 1975 and net farm income overall rose by 34 per cent. But 1979 and 1980 were not especially buoyant.

The record crop shipments and production in 1981 failed to provide the kind of cushion of profitability there had been in the past and for beef producers 1981 was not a good year.

Hog prices rose to record levels in mid-1982 and cattle prices improved. Help for the beef producer came from a C$141m support programme but according to Mr Cliff Mills, manager of the Alberta Cattle Commission, beef prices are still not good enough to produce a decent return.

The grain producers now face a new challenge from the reform of the Crow's Nest Pass rate announced recently by the Federal government. The "Crow" rate was established in 1897 in a deal between the Federal Government and the railways to open up the prairies and guarantee fixed freight costs for farmers shipping grain across Canada and for export.

As railway costs have escalated, the "Crow" now amounts to a freight subsidy for grain *farmers of around C$20 a ton.* It has held back much needed new investment to increase shipments out of the prairies provinces and has acted as a brake on both crop and cattle production in Alberta.

There has been general agreement that the Crow rate should be changed but disagreement as to how it should be done. The Government has decided to move gradually to place freight rates on a commercial footing in return for new investment from the railways.

Subsidies shared by the farmers and the railways to smooth the transition to realistic freight charges will lessen the immediate cost to grain farmers, but by 1985-86 they will be paying twice as much to ship their grain as they are at present and by 1990 could be paying five times as much.

In the long term, the grain producers should benefit. There is still land available in Alberta for new cultivation. The Government expects that as bottlenecks are ironed out in the late 1980s exports of grain will increase and by 1990 western producers could be shipping an extra 8m metric tonnes a year worth C$1.6bn at current prices.

With grain producers paying realistic rates it will become increasingly advantageous for them to sell more produce in Alberta, benefiting the beef producer. In fact the effective subsidy given by the Crow rate has tended to distort the pattern of agriculture within the province.

While grain could be shipped out extremely cheaply, beef has had to be transported at the full commercial cost. Gradually this distortion should end. A hoped-for side effect is an increase in food processing and beef packaging within the western provinces.

But there are doubts as to whether an increase in beef production can be sold without producing an over supply which would further damage prices.

If the Government is right, the amendments to the Crow rate will aid agriculture throughout the West, but for the farmers at the moment, what they need is a rise in world prices. A cutback in calving as beef prices softened is now translating through into supply and beef producers see the chance of rising prices over the next two years. The grain producers can only hang on and hope that the cycle turns.

Nicholas Hirst

ALBERTA V

"We have to avoid any domino effect of a cut in oil prices," says Peter Lougheed, Alberta's Premier, in an interview with Richard Johns

MR PETER LOUGHEED is the longest serving political leader in Canada, having been chosen chief of the Progressive Conservative Party in Alberta in 1965. He has been consistently in office as Premier of the province for over 12 years and is just starting his fourth term after his overwhelming victory in last November's elections.

A big campaign has been launched to draft Mr Lougheed as national leader of the Canadian Tories by supporters who see him as the only saviour of the divided party after Mr Joe Clark's resignation. He insists: "I am committed to carrying out my responsibilities to Alberta."

This week he visits London as part of a tour aimed at raising finance for Alberta on the international market and encouraging foreign investment in the province. He was in the midst of preliminary work on drawing up Alberta's budget when he gave this interview in Edmonton. Here are excerpts from that interview.

Peter Lougheed: relations with Ottawa less stressful

Q. It must be difficult to make budget estimates amid the current uncertainty over oil prices?

A. Yet, it is.

Q. How do you view a reduction in them which now looks inevitable?

A. It depends on how it's done. The crucial part is that it does not have a domino effect.

Q. If there is any drop surely Alberta, like the UK, will have to make some adjustment to its tax rates?

A. We are in a different situation because we have an agreement with the Federal Government under which we are only allowed 75 per cent of the international price for our "old oil" (discovered before 1981). We have to assess that first. We also have to consider whether a drop will be short-term or medium-term.

Q. What about the strange situation where Canada is importing oil and Alberta now has a capacity of nearly 200,000 barrels a day "shut-in"?

A. It's so ridiculous. The issue has to be resolved. It does not make sense to Canada with its need to make an economic recovery.

Q. The bulk of the Albertan oil held back is "older" oil" and therefore cheaper than the imported?

A. It's not so much that. The problem is, from the economic point of view, that you can only produce at a certain rate. That money (from the "shut-in" oil) does not come back into the economic stream for 10 to 15 years. It's like kicking yourself on the shins.

Q. What about the pace of oil and gas exploration?

A. It was pretty good during the fall and is fairly good right now.

Q. The Alberta Government has paid a lot in subsidies, hasn't it?

A. We reduced royalties last April and I think we had to because of the situation with regard to the high debt rolls of the companies, high interest rates and falling gas sales. We believe the conventional oil and gas industry is strengthening. We think they are paying off their debts pretty quickly. Their cash flows are pretty good now.

Q. How do you view the National Energy Board's recommendation for a big increase in the quantity of natural gas authorised for export?

A. That's taken away one hurdle—the regulatory one. If the market were there we could export more. What we are working on aggressively with industry and the Government is marketing our gas in the present confused situation in the U.S. So we are going through some difficult times but I think that it will be short-term.

Q. What about the proposed project to sell liquefied natural gas to Japan? It appears that the proceeds to Alberta producers might not be very significant.

A. We'd only be supportive of the plan if the netback to the producers was comparable to netbacks from sales to other markets.

Q. Alberta's relationship with Ottawa has been very strained in the past not the least as a result of the National Energy Programme . . .

A. It's been very strained. They have a view, the current Government in Ottawa, a highly centralist view. They would prefer that we did not have a federal state. We've forced them on the constitutional and energy issues to respect the federal character again. It's obvious that for our mutual interest we have to work closely together.

Q. Would you describe relations as better than they were two years ago?

A. I would not use that word. I would say they were not so stressful as they were. But there are on-going issues such as the shut-in oil. I think it's inherent in a federal state when you've got 23m people spread across a huge land mass you're going to have those factors. Observers from afar should realise you have no national institution in Canada where regional views are expressed. Unlike the U.S. we do not have an elected Senate.

So that puts the pressure on the western premiers to work as effectively as we can with central government. And we get criticised in this office (by Ottawa) whenever we do. And we get criticised in the province when we do anything by way of a compromise. As you know from the election results of last November we seem to have pretty solid support. One of the issues that is current and, I think, important for your readers is that Alberta has led the campaign to abolish the Foreign Investment Review Agency.

We want investors from the UK and all over the world to come to Canada. They've made very positive contributions in the past . . . The agency did not really become the problem it is today until it was linked to the National Energy Policy. I think that the two together created a nationalist perception of Canada—the impression that the foreign investor was somehow unwelcome.

Q. What will be your main concerns during your trip?

A. During 1983 I intend to spend a fair amount of time marketing our products in other countries and at the same time trying to change perceptions of investors to make sure that they know they are still very welcome in Alberta.

Initially I'll be in the U.S. and Switzerland as well as the UK. There will be others later. I shall be in the UK primarily on the financial side because, you see, for the first time we are going to have to go out into the market and borrow.

Q. When did the province last borrow?

A. In the 1960s. It will be substantial because we are going to start borrowing for our Crown Corporations, like our telephone company, and we shall also have to borrow to some extent for our current account. We are trying to limit that. As you know we have our Alberta Heritage Savings and Trust Fund with its C$11bn assets.

Q. There has been some speculation that you may bid for the national leadership of the Conservatives.

A. I am committed to carrying out my responsibilities as Premier of Alberta.

Winter Olympics boost for tourism

WINTER IS a serious event in Alberta. The continental climate produces a bone-chilling cold. A constant blue grey trail flows out of car exhausts. Car parks are equipped with electric sockets to plug in engine block heaters fitted to cars to help them start. Hotel doormen wear fur coats.

Some years, this year is an example, the winter is relatively mild. Warm winds called "chinooks" from the south bring the temperature to zero and above. But the winds cannot be guaranteed.

Last year Alberta froze through a mind-numbing January. Generally it is cold. So cold that the winter Olympics to be held in Calgary in 1988 will take place in late February and early March, a month later than they would be if they were being held in Europe. February brings a chance of more snow but it is the cold more than the snow that fixed the later date.

High up in the Banff National Park and one hour and a half's drive from Calgary is Lake Louise, the largest ski resort in Canada. At the top of the highest runs the sky is a deep high altitude blue. World class downhill races are held here. The views are breathtaking, the runs long and challenging.

Yet only around 5 per cent of Alberta's tourist revenues come from skiing. It is the summer season that brings in most of the tourists that accounted for C$1.3bn of revenue in 1981, around a tenth of the Canadian total.

Summer offers the unparalleled scenery of the Rockies. A drive out of Edmonton or Calgary to Jasper and Banff makes an easy weekend break from a business conference and there is always the annual Calgary stampede, a rodeo-cum-carnival.

Revenues down

Last year the tourist trade as a whole suffered from the recession with revenues down by around nine per cent and a further decline is expected this year. But business travel, around 25 per cent of the total, has been holding up.

This year will see some 300,000 visitors and participants to the world university games in Edmonton in July. But it is the Winter Olympics which should provide a lasting draw and improvement in tourist facilities.

But the Winter Olympics have been dogged by controversy. The sites originally chosen for the cross-country ski events have not had snow for three years and has been changed. The bob sleigh and toboggan events have been moved from the original setting. But the greatest controversies have been over the way the games were to be organised and the site for the spectacular downhill events.

Frank King, chairman of the organising committee of businessmen who won the games for Calgary is determined that the games will be organised and run by as many volunteers as possible. A disagreement over how many of the key organisers should be paid professional managers rather than volunteers, resulted in the committee asking for and receiving the resignation of its paid chief executive officer David Leighton appointed just 10 months before. Frank King, the 46-year-old president of Amerigo International, a Canadian chemical company, has now taken over as chief executive officer and will remain an unpaid volunteer. Mr King maintains that if the Calgary stampede can be run by volunteers so can the Olympics.

In its original proposals to the international committee, the organising committee fixed on an area called Mount Sparrowhawk and adjoining mountains, for the downhill events, which after the Olympics would provide a first-class competition and recreational resort.

But cost estimates on building Sparrowhawk proved higher than expected. "Infrastructure costs are enormous," said Frank King. In its place, the organising committee has chosen Mount Allan.

The problem with Mount Allan is a lack of snow—snowmaking equipment will be essential — high winds and doubts over whether the terrain is suitable for a world-class downhill course. Snowmaking equipment can be put in for C$7m, a relatively small amount in a total budget for the games of C$415m.

The problem of the terrain is less easy to solve. The organising committee's intention is to develop Mount Sparrowhawk cheaply, in addition to Mount Allan, as a training and competition hill.

N. H.

* **A trade and investment mission sponsored by the UK Institute of Directors will visit Alberta in late June this year.**

Nicholas Hirst explains the strained relations with Ottawa

Battle over natural resources

IT IS HARD to find anyone in he West and in Alberta in particular who has a good word to say about Federal Prime Minister Pierre Trudeau or his Liberal Government. "It is the whole feeling that we are not getting our fair share from Ottawa," said Wayne Clifford, an executive director with the Alberta Department of Federal and Intergovernmental Affairs.

That feeling was brought into sharp focus in February last year when Gordon Kesler of the Western Canada Concept, a separatist organisation, won a surprise victory in a by-election for the provincial assembly.

It shook the complacency of Premier Peter Lougheed's Government. In power for 12 years, Mr Lougheed's Progressive Conservatives were dealing with an incipient recession for the first time.

The Western Canada Concept seemed an unlikely vehicle to topple Lougheed, a disorganised party it had no clear idea how to secede from the Canadian federation. But Lougheed set about convincing Albertans they were better off in the confederation.

He brought in a mildly reflationary budget and decided the time had come to use the Alberta Heritage savings trust fund, built up from Alberta's oil royalties, to ease the pain of economic downturn. For two years all its income was diverted to subsidise mortgage interest payments for homeowners and small businesses.

The WCC was trounced in the general provincial election last November. Premier Lougheed's Progressive Conservatives won 75 out of the 79 seats. Mr Kesler failed to get elected and his party failed to gain any representation, but with 10 per cent of the votes cast, the WCC and the anti-Ottawa constituency it represents are ignored at the Government's peril.

Antipathy to Ottawa and the East in general has its roots in history. Alberta became a province in 1905 but it took another 25 years of struggling for it to gain the right held by other provinces to own its own natural resources.

That right has been the main source of tension between the Federal and Provincial Governments for the last decade. But the antipathy also has a political bias. None of the prairie provinces of Alberta, Saskatchewan and Manitoba have a single Federal Liberal MP.

Alberta regards itself as a bastion of free enterprise and sees Ottawa as a central interventionist bureaucracy for ever, trying to increase its power. Albertans feels that before their province prospered with the oil boom it was ignored. After the oil boom, the Government wanted control of the resources for itself.

The fight over control of resources came to a head with Ottawa's proposals for a National Energy Programme in October 1980. Lougheed saw the NEP as an attempt to remove control of oil management from the province and greatly to reduce Alberta's ability to raise royalty revenues.

Reshuffles

To enforce his position, the Alberta Government shut down its oil production by 5 per cent every three months to bring Ottawa to the bargaining table. In the end Lougheed won a partial victory, changing the original proposed oil price structure and gaining 30 per cent of oil revenues against the Federal Government's 25 per cent.

As it turned out the combined take proved too great and both governments made concessions in an attempt to revive the oil industry.

Since the oil fight, relations between Alberta and Ottawa have relaxed. "The electricity of the tensions has diminished," said Ron Thumlert, executive director at the Intergovernmental Affairs Department for Resources and Economic Development. Federal Cabinet reshuffles have also resulted in the appointment of ministers more in tune with western ideas.

While tensions have lessened, disagreements are never far from the surface. Mr Clifford says that his department tries for co-operation rather than confrontation.

Alberta pushed hard for the Federal National Energy Board to authorise increased exports of natural gas on longer term contracts. Last month it got what it wanted when the NEB indicated that with Cabinet approval it was prepared to authorise 11.5 trillion cu ft of new exports to the United States and Japan.

Alberta's pressure has also resulted in authorisation for oil exports allowing oil wells to produce nearer their full capacity.

The province is less happy with the way the Federal Government intends to amend the Crow's Nest Pass Freight Rate. The Crow rate was fixed in an agreement with the Canadian Pacific Railway and the Federal Government in 1897. In exchange for land and mineral resources the railway agreed to provide a fixed rate charge for western grain moving through Canada for all time.

Inflation has made the cost of shipping grain many times the Crow freight charge. As a result the railways—the agreement was extended to the Canadian National Railway in the 1920s—have been unwilling to invest in much needed expansion.

Alberta wanted the rate changed. It also wanted to protect its farmers from increased costs. But it believed any subsidies should be given in a way that would encourage food processing

Another fight could develop. It may not be as fierce as the battle of the National Energy Programme, but it will serve to reinforce the view, widely held in the province, that Ottawa does not have Alberta's best interests at heart.

THE WEEK IN THE COURTS

The rights of immigrants and the realities they face

NO FREEDOM is more precious than freedom of movement, and no right is more basic *than the right to settle in and* live in and on the land of one's own free choice. Yet countries the world over still have these rules and regulations.

The cruelties, the hardships and the tragedies which the administration of those rules and regiulations can cause are immeasurable.

'Illegal immigrant'

In the appeals of In re Khawaja and *In re Khera*, the House of Lords has moved one step forward towards the mitigation of these tragedies, hardships these rules can cause. Several important issues arose for decision in those appeals.

● The first concerned the meaning of the expression "illegal immigrant" in the Immigration Act 1971. Are the only illegal immigrants persons who have entered the country clandestinely without presenting themselves to an immigration officer at a port of entry? This was an argument put forward in the *appeals on behalf* of the appellants.

Or does the expression also include any person who has obtained leave to enter the country by some form of fraud or deception perpetrated on an *immigration officer? This* was the unanimous decision of all the Law Lords in the appeals.

The Law Lords reserved for a future occasion any ruling on the question whether a person is an illegal immigrant if and when his or her leave to enter the country results not from his or her fraud or deceit but from the deceit or fraud of some other person. The facts of the two appeals did not give rise to this interesting issue.

● The second important issue in the appeals was whether a person who seeks leave to enter this country owes a duty to disclose all or *any material facts* to the immigration authorities even though he or she is asked no questions and has made no false statements about all or any of those facts.

In a previous appeal, *Zamir v Secretary of State for the Home Department*, the Law Lords declared the law imposed *on an applicant for leave to* enter this country a duty of positive candour towards the immigration authorities: a duty to volunteer relevant information.

In the appeals of *Khawaja* and *Khera*, the *Law Lords* departed from precedent and ruled that the Immigration Act 1971 imposed a duty on a prospective immigrant not to deceive the immigration officer but contained no provision for any higher or more comprehensive duty.

For the time being the immigration laws of this country impose no duty of positive candour on immigrants or prospective immigrants. In the absence *of fraud mere non-disclosure of* material facts is no breach of the immigration laws.

● *The third important issue in* the appeals concerned the scope of the courts' power to review any decision by or on behalf of the Home Office to detain or deport an illegal immigrant.

Narrower view

Is the courts' sole function in this context to decide whether there was evidence on which the immigration officer or other appropriate Home Office official acting fairly and in accordance with the rules of natural justice could reasonably make a decision to detain or deport? This is the narrower view of the courts' powers.

Or can the courts review the Home Office decision fully by deciding whether it was justified and in accordance with the evidence? This is the wider view of the courts' powers.

In *Zamir's* appeal the Law Lords favoured the narrower view. They declared that the courts' duty was limited to inquiring and deciding whether there was evidence on which an immigration officer was entitled to decide as he did.

In Khawaja's and *Khera's* appeals the Law Lords again departed from precedent and ruled that the courts had justification to review the facts on which the Home Office's decision to detain or depart was based. The Immigration Act, 1971, authorised the removal of a person whom an immigration officer believed to be an illegal immigrant whether on reasonable grounds or otherwise.

● The fourth important issue in *the appeals was whether the* courts' powers of review extended to aliens and non-patrials or was limited to British nationals. Lord Scarman dealt with this issue clearly and succinctly when he said that "every person within the jurisdiction enjoys the equal protection of our laws. There is no distinction between British nationals and others."

● The fifth important issue in the appeals concerned the burden *and standard of proof* applicable to a judicial review of an executive decision to detain and deport an allegedly illegal immigrant

Probabilities

In his speech Lord Scarman said the burden of proving an immigrant obtained leave to enter *the country by fraud* was on the executive but that the standard of proof was the balance of probabilities." To adopt the strict standard prevailing in criminal cases "would be a positive disadvantage inhibiting the efficacy of the developing safeguard of judicial review in the field of public law."

An immigrant who is seeking to defend his right to remain in *the country of his choice* might well wonder why the law imposes a lower standard of proof on the Home Office over a decision to detain and expel him than it does on a shopkeeper prosecuting a shoplifter *for theft of a small loaf of* bread.

● The sixth important issue in the appeals was whether the Law Lords were justified in departing from the precedent and the rulings in *Zamir's appeal. They felt justified for* various reasons. The appeals involved "a broad issue of justice and public policy" and "an important question of legal principle." They heard "fuller argument" in these appeals.

Two of the *Law Lords* who had heared and decided *Zamir's* appeal heard these appeals and as a result of the fuller argument had changed their views.

Opinions about immigration tend to extremes. At one extreme is the pronouncement in a debate in the House of Commons that "no civilised and tolerant society could absorb millions of people with different language, religion and customs, over a shortish period without considerable harm."

A more enlightened view is that, as Lord Templeman said in his speech in the appeals, in an ideal world there would be no restrictions on immigration.

Justinian

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

[illegible]

INSURANCES

[illegible]

INSURANCE & OVERSEAS MANAGED FUNDS

Hambros Fd. Mgrs. (C.I.) Ltd.
P.O. Box 86, Guernsey 0481 26521

Capital Reserve Fund	15.96	15.97		0.22
C.I. Fund	312.5	332.8		2.47
Special Sits. Fund	117.1	121.5		2.27
Sterling Income Fund	110.5	115.5		11.02
Dollar Income Fund	$1.066	1.112		12.14
Trans. Nat. Trust	$1.120	1.179		1.86
Intnl. Bond	$105.09	110.63		11.95
Int. Equity	$19.86	20.91		1.75
Int. Svgs. 'A' $US	$1.61	1.69	...	—
Int. Svgs. 'B'	$2.18	2.29	...	—
Gaikoin Acc. Fund 'A'	$1.057	1.062	.....	—
Gaikoin Acc. Fund 'B'	$1.120	1.149	...	—
Amer. Spec. Actn.	$1.00	1.06	.....	—

Henderson Admin. & Man. (Guernsey)
7 New St., St. Peter Port, Guernsey 0481 26541/2

American (US cents)	167.0	177.7	.....	—
Nat. Res. (U.S. cents)	123.0	130.9		—
Gilt Fund	£10.46	11.09	+0.27	11.27
Prime Res. Props.	—	100.0	.....	—

Henderson Baring Group
1901, Edinburgh Tower, Hongkong.

Australia	$8.14	8.77	.....	—
Hong Kong	$12.82	13.75	.....	—
Japan Tech.	$19.05	50.36	.....	—
Japan Fund	$28.82	30.79	.....	—
Malay Sing.	$19.41	20.90	.....	—
Pacific Fd.	$12.139	12.745	.....	—
Bond Fd.	$11.528	11.894	+0.134	10.89

Hill-Samuel & Co. (Guernsey) Ltd.
8 LeFebvre St., St. Peter Port, Guernsey, C.I.

Guernsey Tst.	253.3	271.0	−1.6	2.81

Hill Samuel Investment Mgmt. Intnl.
P.O. Box 63, Jersey. 0534 76029

UK Equities (C.I. Fd.)	273.6	288.0	.....	3.50
UK Gilt Lty. Fxd. Int.)	105.0	211.0	...	11.00
Int. Man. (Growth Fd.)	148.6	156.9	.....	—

Int. Currency Fund

D Mark		DM41.60	+0.02	—
£ Sterling		£10.64	+0.01	—
Swiss Franc		SF35.33		—
U.S. $		$21.90	+0.02	—
Managed Fund	11.56	12.05	−0.02	—

Quilter/Heinold Commodities
31 45, Gresham Street, EC2V 7LH 01 600 4177

Res. Fd. Int. Feb 1	$1.6248	530		1.84

Next dealing date March 1

Richmond Life Ass. Ltd.
4 Hill Street, Douglas, I.O.M. 0624 23914

Coin Trust	44.8	48.0		—
Diamond Bond	80.1	86.0	..	—
Gemstone Trust	127.4	136.5		—
Gold Bond	324.1	344.5	−0.1	—
Managed Fund	108.1	116.5	.....	—
Petroman Oil Trust	59.1	63.3	.....	—
Do. $	0.930	0.950		—
Silver Trust	348.5	368.7	−2.7	—
Sterling Deposit Bd.	160.31	168.77	0.04	10.99
UK Gilt Fund	156.4	166.2	+0.6	—

Rothschild Asset Management (C.I.)
St. Julian's Ct., St. Peter Pt., Guernsey. 0481 27042

OC American Fd.*	53.07	5.26	.....	1.34
OC Sm Co.***	164.2	174.0	.....	1.76
OC Commodity†	109.3	116.2	.....	2.45
OC Dir. Comdty.*	$36.81	99.15	.....	2.45
OC Hongkg. Fott	$33.30	35.42	.....	—

OC Intnl. Reserves Ltd. 0481 26741-26331

See Currencies Page Mon-Fri and Stock Exchange Dealings Page Sat.
*Prices Feb 7. Next dealing Feb 21. †Prices Feb 14. Next dealing Feb 28. ***Feb 15. Next dealing Feb 28.
††Dealings every Wednesday.

Royal Bank of Canada Funds
RBC Invest Managers Ltd
PO Box 246, St. Peter Port, Guernsey 0481 23021

Intl. Income Fd.	$9.91	10.55	.....	—
Intl. Capital Fd.	$12.49	13.55	+0.14	—
North America Fd.	$5.72	6.23	...	—

RBC Intl. Currencies Fd. Ltd

U.S.$	—	$20.31	+0.01	—
Canadian $	—	C$25.42	+0.01	—
£ Sterling	—	£10.18	.....	—
D-Mark	—	DM50.42	.....	—
Swiss Francs	—	SF40.17	.....	—
Japanese yen	—	Y6,059.0	+1.0	—
Managed Fund	—	$20.66	+0.10	—

Daily Dealings.

OFFSHORE AND OVERSEAS

NOTES

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
18Ja	18Jul	Treasury 9¾pc '83	99½	13 12	9.28	10.07
22May	22N	Exch. 13½pc '83	102	18 10	13.23	10.55
12Jun	12D	Exch. 10pc 1983	99½	5 11	10.03	10.34
15Jul	15Ja	Funding 5½pc '82-84‡‡	97¼	9.12	5.66	8.72
20Aug	20F	Exch. 11¼pc 1984	101¼xd	14 1	11.11	9.91
22N	22May	Exchequer 14pc. 1984	104⅛	18 10	13.45	10.27
19D	19Jun	Exch. 3pc 1984	94¼	12 11	3.18	7.64
26Mar	26S	Treasury 12pc 1984	102½xd	14 1	11.67	10.06
22Aug	22F	Treasury 15pc 1985	107⅝xd	17.1	13.94	10.67
22S	22Mar	Exch. 12pc Cnv. '85	105¼xd	14.2	11.42	9.25
21N	21My	Treasury 3pc 1985	90⅜	15.10	3.32	7.76
15Jan	15Jul	Treasury 11½pc 1985	101½	9 12	11.30	10.62
3 Sept		Treas 8¾pcCnv '85	99	—	8 84	9.17
22May	22N	Exch. 12¼pc 1985	102⅞	18 10	11.91	10 98
25 Aug.	25F	Exch. 11¾pc '86	101½xd	19 1	11.53	10.98
19N	19May	Treasury 3pc 1986	87¼	13.10	3.44	7.50
12D	12Jun	Treasury 12pc '86	102½	5 11	11.67	10.94
10Ja	10Jul	Treasury 8¾pc '84-86‡‡	96¼	6.12	8.78	9.65
14Ja	14Jn	Treas. 12¼pc '86 Cnv	108⅛	8.12	11.33	9.48
29Apr	29Oct	Exch. 14pc 1986	108¼	22.9	12.93	11.16
22Jul	22Jan	Exch. 13¼pc 1987	106½	16 12	12.42	11.08
—		Exchequer 2½pc 1987	83½	—	2.98	7.17
Oct 6	Apr 6	Exch. 10½pc 1987	98¼	—	10.69	11.01
6 Oct	—	Ex. 10½pc '87A (£30pd).	30⅛	—	10.63	10.83
1N	1May	Funding 6½pc '85-87‡‡	91¼	27.9	7.11	9.01
14Ja.	14Jul	Treasury 3pc 1987	84¼	8 12	3.56	7.25
3 May	3N	Treas. 12pc 1987	102½	27 9	11.66	11.15
26Jul	26Ja	Treasury 7¾pc '85-88‡‡.	91¼	20 12	8.45	9.90

Five to Fifteen Years

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
—		Exch 10½pc '88	100⅞	—	10.73	11.04

Over Fifteen Years

Undated

Index-Linked & Variable Rate

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

LOANS—Continued

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS & HIRE PURCHASE

BANKS & H.P.—Cont.

Hire Purchase, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Continued.

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS-Cont.

[illegible]

Finance, Land, etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

MINES—Continued

Central African

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
Nov.	May	Falcon Rh.50c	300	15	Q25c	10.3	5.8
Nov.	May	Wankie Col. Z$1	19	4.10	†Q3c	2.2	20.7
—		Zam.Cpr.SBD0.24	27	980	—	—	—

Australians

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		♥ACM 20c	23½	—	—	—	—
—		♥Argosy Gold NL 25c	10	—	—	—	—
—		♥Black Hill Mins.	61	—	—	—	—
—		♥Bond Corp.	61	—	φQ10c	2.3	11.1
Nov.	Apr.	♥Bougainville 1 Kina	148	7.3	Q3.42c	◆	15
May	Nov	♥CRA 50c	250	15 3	‡Q5c	—	‡
—		♥Carr Boyd 20c	125	—	—	—	—
—		♥Central Pacific	26	—	—	—	—
—		♥Crusader Oil	255	—	—	—	—
—		♥Cultus Pac NL	9½	—	—	—	—
—		♥Eagle Corp 10c	11	—	—	—	—
—		♥Endeavour 20c	12½	—	—	—	—

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible]

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

			IRISH		
[illegible]			[illegible]		
Higsons Brew.	105		Concrete Prods.	48	
Holt (Jos) 25p.	880		Heiton (Hldgs.)	15	
I.O.M. Stm. £1	98xd		Ins. Corpn. Ireland	340	
Pearce (C. H.)	£12		Irish Ropes	27	
Peel Hldgs.	164		Jacob	81	
			T M G.	90	
			Unidare	42	

OPTIONS

3-month Call Rates

Industrials					
		House of Fraser	15	Utd. Drapery	7
Allied-Lyons	15	I.C.I.	24	Vickers	12
BOC Grp.	17	"Imps"	10	Woolworth Hld	15
B.S.R.	6	I.C.L.	8		
Babcock	10	Ladbroke	16	**Property**	
Barclays Bank	35	Legal & Gen.	28	Brit. Land	7½
Beecham	35	Lex Service	16	Cap. Counties	12
Blue Circle	44	Lloyds Bank	35	Land Secs.	26
Boots	22	"Lots"	4	MEPC	17
Bowaters	19	London Brick	11	Peachey	14
Brit. Aerospace	28	Lucas Inds.	12	Samuel Props.	10
B.A.T.	50	"Mams"	12	Town & City	3
Brown (J.)	4	Mrks. & Spncr	16		
Burton Ord.	24	Midland Bank	30	**Oils**	
Cadburys	11	N.E.I.	9	Brit. Petroleum	26
Courtaulds	8	Nat. West. Bank	38	Burmah Oil	12
Debenhams	8½	P & O Dfd.	14	Charterhall	5
Distillers	20	Plessey	50	KCA	8
Dunlop	5½	Racal Elect.	45	Premier	4
Eagle Star	30	R H M	6	Shell	35
F.N.F.C.	4	Rank Org. Ord.	15	Tricentrol	22
Gen. Accident	30	Reed Intnl	26	Ultramar	42
Gen. Electric	24	Sears	9		
Glaxo	90	T I	13	**Mines**	
Grand Met	25	Tesco	8	Charter Cons.	20
G U S 'A'	50	Thorn EMI	38	Cons. Gold	48
Guardian	35	Trust Houses	13	Lonrho	8
G.K.N.	15	Turner & Newall	4	Rio T. Zinc	42
Hawker Sidd.	30	Unilever	65		

"Recent Issues" and "Rights" Page 19

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £600 per annum for each security

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Mr Volcker, elections and oil

BY COLIN MILLHAM

Three major events dominated foreign exchange trading last week. Mr Paul Volcker, chairman of the Federal Reserve Board made a statement to the U.S. Congress on Wednesday, and doubts about the contents of his speech overhung the market for several days. The initial reaction to his Congressional testimony was to sell the dollar, but this was never particularly heavy, and at the end of the week the U.S. currency was still hovering around the DM 2.40 level. As foreign exchange traders continued to mull over Mr Volcker's words the general feeling in the market seemed to be that the Fed chairman had provided very little in the way of new information.

One dealer suggested that the continued fight against inflation, when this is already down to a level of less than 4 per cent, has to be set against domestic interest rates of over twice this level, with the overnight Federal funds rate at about 8½ per cent. This tended to make him believe that a cut of up to 2 per cent in the U.S. discount rate would probably not lead to a wholesale flight of funds, although Mr Volcker would obviously consider such a move as potentially inflationary, outweighing its beneficial effects on economic growth.

Another significant factor was the decision of the West German Constitutional Court to allow the general election of March 6 to take place.

The effects of the ruling were fairly short lived however, because although it was hoped that the ruling conservative coalition might continue in power for the time being without an election, fears that the Social Democrats will return to office have tended to fade on recent poll predictions.

The other major event was the announcement of a cut of about $3 a barrel in the price of North Sea oil. Sterling's value has been discounting a reduction in oil prices for some time. A cut of between $2.50 and $4 was thought unlikely to have much effect on the pound, and this proved to be correct, with sterling finishing unchanged against the dollar on Friday and only ½ cent down on the week. Its trade-weighted index was 0.2 lower at 80.7.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.5425	1.5398	1.5352	1.5312	1.5283
D-Mark	3.7025	3.6863	3.6525	3.6118	3.5377
French Franc	10.490	10.5850	10.8075	11.0320	11.2716
Swiss Franc	3.0850	3.0638	3.0238	2.9765	2.8878
Japanese Yen	361.0	359.7	357.1	353.5	347.5

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU February 18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9704	45.1046	+0.30	+1.67	±1.5501
Danish Krone	8.23400	8.10217	−1.60	−0.23	±1.6430
German D-Mark	2.33379	2.28927	−1.91	−0.54	±1.0888
French Franc	6.61387	6.49126	−1.85	−0.48	±1.3940
Dutch Guilder	2.57971	2.53014	−1.92	−0.55	±1.5004
Irish Punt	0.691011	0.689911	−0.16	+1.21	±1.6691
Italian Lira	1350.27	1321.01	−2.17	−1.37	±4.1369

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

BANK OF ENGLAND TREASURY BILL TENDER

	Feb. 18	Feb. 11		Feb. 18	Feb. 11
Bills on offer	£100m	£100m	Top accepted rate of discount	10.6492%	10.67%
Total of applications	£556.53m	£432m	Average rate of discount	10.6345%	10.6042%
Total allocated	£100m	£100m	Average yield	10.92%	10.89%
Minimum accepted bid	£97.345	£97.34	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	27%	6%			

OTHER CURRENCIES

Feb. 18	£	$		£ Note Rates
Argentina Peso	89,319-89,359	57,800-57,850	Austria	25.95-26.25
Australia Dollar	1.5930-1.5950	1.0325-1.0330	Belgium	75.60-76.60
Brazil Cruzeiro	451.69-452.69	291.95-293.41	Denmark	13.09-13.22
Finland Markka	8.2340-8.2600	5.3560-5.3580	France	10.47-10.57
Greek Drachma	126.787-130.005	83.10-83.40	Germany	3.70-3.74
Hong Kong Dollar	10.18¼-10.19¼	6.5950-6.6000	Italy	2110-2155
Iran Rial	129.50*	83.95*	Japan	362-366
Kuwait Dinar (KD)	0.449-0.450	0.2908-0.2909	Netherlands	4.08½-4.13½
Luxembourg Fr.	72.90-73.00	47.26-47.28	Norway	10.86-10.96
Malaysia Dollar	3.4950-3.5025	2.2630-2.2650	Portugal	140-155
New Zealand Dlr.	2.1300-2.1370	1.3840-1.3860	Spain	192¼-207¼
Saudi Arab. Riyal	5.3095-5.3150	3.4380-3.4390	Sweden	11.34-11.44
Singapore Dollar	3.1875-3.1950	2.0645-2.0665	Switzerland	3.07½-3.10½
Sth. African Rand	1.6845-1.6855	1.0920-1.0930	United States	1.53½-1.55½
U.A.E. Dirham	5.6705-5.6770	3.6715-3.6730	Yugoslavia	105-114

*Selling rates

CURRENCY MOVEMENTS

Feb. 18	Bank of England Index	Morgan Guaranty Change %
Sterling	80.7	−39.5
U.S. dollar	119.1	+9.9
Canadian dollar	90.1	−17.2
Austrian schilling	120.7	+29.6
Belgian franc	94.0	−2.3
Danish kroner	84.1	−10.0
Deutsche mark	128.6	+55.2
Swiss franc	152.1	+107.2
Guilder	119.1	+27.5
French franc	74.4	−18.9
Lira	53.5	−58.5
Yen	145.7	+39.4

Based on trade weighted changes from Washington agreement December 1971. Bank of England index (base average 1975=100).

CURRENCY RATES

Feb. 18	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.708964	0.616431
U.S. $	8½	1.09464	0.952077
Canadian $	9.45	*	1.16629
Austria Sch	4¾	18.5126	16.0901
Belgian F	11½	51.8695	45.1046
Danish Kr	10	9.33454	8.10217
D mark	5	2.63206	2.28927
Guilder	4½	2.91010	2.53014
French F	9½	7.46435	6.49126
Lira	18	1518.81	1321.01
Yen	5½	255.380	223.024
Norwgn Kr	9	7.74458	6.73118
Spanish Pta	—	141.427	123.008
Swedish Kr	9	8.09596	7.02490
Swiss Fr	4½	2.18786	1.90292
Greek Dr'ch	20½	91.7856	79.5936

* C$/SDR rate for Feb 17: 1.34422.

THE POUND SPOT AND FORWARD

Feb 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.5365-1.5505	1.5420-1.5430	0.30-0.25c pm	2.14	0.76-0.71 pm	1.90
Canada	1.8820-1.8970	1.8880-1.8890	0.32-0.22c pm	1.72	0.80-0.70 pm	1.59
Nethlnd.	4.07½-4.11	4.08½-4.09½	2½-1⅞c pm	5.87	6½-6 pm	6.11
Belgium	72.65-73.25	72.90-73.00	7.17c dis	−1.97	50-60 dis	−3.01
Denmark	13.06-13.17	13.07-13.09	4⅞-5⅞ore dis	−4.93	22¾-23½ dis	−7.01
Ireland	1.1130-1.1220	1.1155-1.1175	0.30-0.43p dis	−3.92	1.08-1.31dis	−4.28
W. Ger.	3.68½-3.72	3.69¾-3.70¾	1⅞-1⅝pf pm	5.27	5¼-4¾ pm	5.40
Portugal	139.25-143.25	141.00-143.00	510-1285c dis	−75.84	775-2320dis	−43.59
Spain	198.50-200.00	198.90-199.20	130-230c dis	−10.85	435-535 dis	−9.75
Italy	2,131-2,143	2,132½-2,134½	15-19lire dis	−9.56	58½-63½dis	−11.44
Norway	10.87-10.92	10.87-10.88	1⅞-2⅞ore dis	−1.79	6⅞-7⅞ dis	−2.67
France	10.47-10.53	10.48½-10.49½	8½-10½c dis	−10.87	30¾-32¾dis	−12.10
Sweden	11.36-11.42	11.37-11.38	½ore pm-1⅛ dis	−0.33	1⅞-2⅞ dis	−0.72
Japan	358½-363½	360½-361½	1.40-1.20y pm	4.32	4.00-3.80 pm	4.32
Austria	25.92-26.12	25.97-26.02	11½-9⅝gro pm	4.90	34-29½ pm	4.88
Switz.	3.06½-3.09½	3.08-3.09	2⅞-1⅞c pm	8.26	6⅞-5⅞ pm	7.94

Belgian rate is for convertible francs. Financial franc 75.70-75.80. Six-month forward dollar 1.16-1.11c pm. 12-month 1.50-1.35c pm.

THE DOLLAR SPOT AND FORWARD

Feb 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5365-1.5505	1.5420-1.5430	0.30-0.25c pm	2.14	0.76-0.71 pm	1.90
Ireland†	1.3770-1.3855	1.3840-1.3855	0.70-0.60c pm	5.64	2.20-2.00 pm	6.08
Canada	1.2235-1.2260	1.2240-1.2245	0.05-0.08c dis	−0.64	0.11-0.14dis	−0.41
Nethlnd.	2.6465-2.6600	2.6490-2.6510	0.89-0.79c pm	3.79	2.87-2.77 pm	4.26
Belgium	47.20-47.43	47.26-47.28	16½-18½c dis	−4.45	58-62 dis	−5.08
Denmark	8.4700-8.5375	8.4750-8.4850	3-4ore dis	−4.94	9½-10½ dis	−4.71
W. Ger.	2.3960-2.4100	2.3985-2.3995	0.64-0.59pf pm	3.08	2.14-2.09 pm	3.53
Portugal	91.00-93.00	91.50-93.00	350-850c dis	−78.05	550-1550dis	−45.53
Spain	128.60-129.55	128.85-128.95	120-170c dis	−13.47	365-415dis	−12.07
Italy	1,381-1,388½	1,383-1,384	13½-15lire dis	−12.36	46½-49dis	−13.80
Norway	7.0480-7.0765	7.0480-7.0580	1.90-2.90ore dis	−4.08	7.40-8.40dis	−4.47
France	6.7900-6.8300	6.8000-6.8050	7¾-8¼c dis	−14.12	24½-25½dis	−14.71
Sweden	7.3740-7.3960	7.3740-7.3840	1½-2ore dis	−2.85	4.30-4.80dis	−2.47
Japan	233.00-235.20	233.85-233.95	0.45-0.40c pm	2.18	1.44-1.36 pm	2.39
Austria	16.83-16.90½	16.83¼-16.84¼	4½-3½gro pm	2.75	14-11½ pm	3.02
Switz.	1.9880-2.0025	1.9975-1.9985	1.00-0.95c pm	5.85	3.08-3.03 pm	6.12

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 49.05-49.15.

EXCHANGE CROSS RATES

Feb. 18	Pound St'rling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild'	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.543	3.703	361.0	10.49	3.086	4.090	2154.	1.869	72.95
U.S. Dollar	0.648	1.	2.400	234.0	6.801	2.000	2.652	1383.	1.224	47.29
Deutschemark	0.270	0.417	1.	97.50	2.833	0.833	1.105	576.2	0.510	19.70
Japanese Yen 1,000	2.770	4.273	10.26	1000.	29.06	8.546	11.33	5910.	5.231	202.1
French Franc 10	0.953	1.470	3.530	344.1	10.	2.941	3.899	2034.	1.800	69.54
Swiss Franc	0.324	0.500	1.200	117.0	3.400	1.	1.326	691.6	0.612	23.65
Dutch Guilder	0.244	0.377	0.905	88.26	2.565	0.754	1.	521.6	0.462	17.84
Italian Lira 1,000	0.469	0.723	1.735	169.2	4.917	1.446	1.917	1000.	0.885	34.19
Canadian Dollar	0.530	0.817	1.961	191.2	5.555	1.634	2.166	1130.	1.	38.65
Belgian Franc 100	1.371	2.114	5.075	494.9	14.38	4.229	5.607	2925.	2.589	100.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
March	91.07	91.08	90.97	90.91
June	90.76	90.78	90.70	90.62
Sept	90.40	90.40	90.34	90.26
Dec	90.19	90.20	90.19	90.00
March	89.94	—	—	89.75

Volume 2,207 (1,446)
Previous day's open int. 3,172 (3,208)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
March	89.34	89.38	89.25	89.41
June	89.91	89.95	89.79	89.85
Sept	90.05	90.10	89.96	89.97
Dec	90.00	90.00	90.00	90.01

Volume 739 (466)
Previous day's open int. 2,451 (2,434)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
March	102-22	102-25	101-15	101-23
June	102-10	102-14	101-09	101-11
Sept	101-23	101-26	101-23	100-27

Volume 1,805 (2,077)
Previous day's open int. 2,607 (2,326)
Basis quote (clean cash price of 15¼% Treasury 1998 less equivalent price of near futures contract) −4 to +4 cum. div. 10/20 ex div. (32nds).

STERLING £25,000 $ per £

	Close	High	Low	Prev
March	1.5480	1.5480	1.5360	1.5455
June	1.5410	1.5410	1.5310	1.5410
Sept	1.5357	1.5357	1.5357	1.5357

Volume 239 (82)
Previous day's open int. 924 (923)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
March	0.4180	0.4249	0.4164	0.4189
June	0.4216	0.4216	0.4204	0.4229
Sept	0.4249	0.4249	0.4236	0.4260

Volume 15 (111)
Previous day's open int. 253 (251)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
March	0.5036	0.5044	0.5015	0.5049
June	0.5114	—	—	0.5130
Sept	0.5190	—	—	0.5206

Volume 246 (44)
Previous day's open int. 344 (344)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
March	0.4290	0.4291	0.4265	0.4303
June	0.4316	0.4316	0.4294	0.4331
Sept	0.4321	—	—	0.4336

Volume 172 (88)
Previous day's open int. 349 (350)

CHICAGO

U.S. Treasury Bonds (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
March	75-24	75-26	75-05	75-01
June	75-00	75-01	74-13	74-08
Sept	74-11	74-11	73-25	73-20
Dec	73-27	73-28	73-19	73-05
March	73-14	73-14	72-30	72-25
June	73-04	73-04	72-22	72-16
Sept	72-28	72-28	72-16	72-09
Dec	72-21	72-21	72-10	72-03
March	72-15	0	0	71-30
June	72-10	0	0	71-26

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
March	92.09	82.18	92.04	91.99
June	92.00	92.08	91.93	91.90
Sept	91.64	91.71	91.58	91.53
Dec	91.25	91.33	91.22	91.18
March	90.89	90.93	90.87	90.84
June	90.61	90.61	90.60	90.57
Dec	90.10	90.10	90.10	90.06

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	90.36	90.40	90.35	90.29
March	91.42	91.49	91.40	91.38
June	91.05	91.16	91.04	90.99
Sept	90.66	90.73	90.66	90.58

3-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
March	90.78	90.86	90.77	90.72
June	90.50	90.58	90.47	90.42
Sept	90.14	90.20	90.11	90.06
Dec	89.86	89.88	89.80	89.78
Feb	0	0	0	0

STERLING (IMM) $s per £

	Close	High	Low	Prev
March	1.5425	1.5480	1.5395	1.5425
June	1.5360	1.5425	1.5320	1.5365
Sept	1.5320	1.5380	1.5320	1.5335
Dec	1.5305	1.5370	1.5305	1.5320
March	0	0	0	0
June	0	0	0	0

GNMA (CBT) 8% $100,000 32nd of 100%

	Close	High	Low	Prev
March	70-05	70-06	69-13	69-13
June	69-05	69-06	68-11	68-09
Sept	68-10	68-12	67-19	67-16
Dec	67-21	67-21	66-31	66-28
March	67-06	67-06	66-23	66-13
June	66-25	66-25	66-11	66-00
Sept	66-14	66-14	66-00	65-21
Dec	66-05	66-05	65-20	65-12
March	65-30	0	0	65-05
June	0	0	0	0
Sept	0	0	0	0
Dec	0	0	0	0

WEEKLY CHANGE IN WORLD INTEREST RATES

	Feb. 18	change		Feb. 18	change
LONDON			**NEW YORK**		
Base rates	11	Unch'd	Prime rates	11	Unch'd
7 day Interbank	11½-11⅝	[illegible]	Federal funds	8⅜-8⅝	−⅛
3 mth Interbank	11[illegible]-11⅛	[illegible]	3 mth Treasury Bills	7.98	−0.15
Treasury Bill Tender	10.6345	−0.0303	6 Mth. Treasury Bills	8.11	−0.16
Band 1 Bills	11	Unch'd	3 Mth. CD	8.00	−0.65
Band 2 Bills	11	Unch'd	**FRANKFURT**		
Band 3 Bills	11	Unch'd	Lombard	6.00	Unch'd
3 Mth. Treasury Bills	10[illegible]-10[illegible]	Unch'd	One Mth. Interbank	5.475	−0.10
1 Mth. Bank Bills	11[illegible]	Unch'd	Three month	5.775	−0.10
3 Mth. Bank Bills	10[illegible]	[illegible]	**PARIS**		
TOKYO			Intervention Rate	12½	Unch'd
One month Bills	6.90625	Unch'd	One Mth. Interbank	12[illegible]	[illegible]
Three month Bills	6.84375	Unch'd	Three month	13⅛	[illegible]
BRUSSELS			**MILAN**		
One month	12[illegible]	[illegible]	One month	18[illegible]	[illegible]
Three month	12[illegible]	[illegible]	Three month	19[illegible]	Unch'd
AMSTERDAM			**DUBLIN**		
One month	4[illegible]	[illegible]	One month	15⅝	−¼
Three month	4[illegible]	[illegible]	Three month	15⅝	[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. * Band 4 11.

MONEY MARKETS

Sent into hibernation

Hopes of lower London interest rates continue to centre on events in the U.S. The Bank of England's buying rate for bills from the money market has been 11 per cent in all bands since clearing bank base rates were increased in the middle of last month. In recent weeks hopes have risen that a cut in the official dealing rate on the longer dated bills would be the first sign that the authorities are prepared to encourage a reduction in base rates, but like the long awaited cut in the U.S. discount rate this has yet to be fulfilled.

In these circumstances the market has reacted to the cold weather by drifting into a state of semi-hibernation, and may only awake in the Spring if the Federal Reserve gives it a prod.

Discount houses became so accustomed to making substantial profits on falling interest rates throughout most of last year, that they are now looking for similar opportunities, albeit on a smaller scale, in 1983. The houses are therefore reluctant to sell bills outright to relieve day-to-day shortages, preferring to engage in repurchase agreements, which tend to have the unfortunate characteristic of rolling shortages forward a few weeks. Large payments of Petroleum Revenue Tax are due at the beginning of March, but at least the market will be moving out of the seasonal tax paying period, although the refinancing of maturing bills in the hands of the Bank of England will probably continue to be the major factor draining funds from the market.

Longer term interest rates were virtually unchanged last week, but the reversed yield curve steepened slightly as large day-to-day credit shortages pushed up rates at the short end of the market.

Elsewhere in Europe, Amsterdam rates were steady while Frankfurt rates declined and Paris rates were firmer. The Bank of France kept its money market intervention level at 12½ per cent, but call money climbed steadily to 12[illegible] per cent from 12¾ per cent. In Frankfurt ample liquidity pushed call money down to 5.50 per cent from 5.60 per cent.

LONDON MONEY RATES

Feb. 18 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	10½-12½	—	—	—	11½-11¾	10½-11¼	—	—	—
2 days notice	—	—	11⅝	—	—	—	—	—	—	—
7 days or ..	—	—	—	—	—	11¾	—	—	—	—
7 days notice	—	11½-11⅝	11⅝	—	—	11¾-11[illegible]	11-11⅛	—	—	—
One month	11½-11⅜	11[illegible]-11[illegible]	11¼	12-11¾	11[illegible]	11⅝-11[illegible]	11	11[illegible]	11[illegible]	11[illegible]
Two months	11⅜-11¼	11[illegible]-11⅛	11⅛	11¾-11⅝	11⅝	11[illegible]-11⅝	10¾-10⅞	10⅞	10⅞	11⅛
Three months	11[illegible]-11[illegible]	11[illegible]-11⅝	11⅛	11⅝-11¼	11¼	—	10¾-10⅞	10⅝-10[illegible]	10¾	11⅛
Six months	10¾-10⅝	10⅞-11[illegible]	10⅞	10⅞-10½	11	—	—	—	10[illegible]-10½	10[illegible]
Nine months	10[illegible]-10[illegible]	10[illegible]-11	—	11-10⅝	10[illegible]	—	—	—	—	—
One year	10[illegible]-10½	10[illegible]-10[illegible]	10½	10⅞-10½	10[illegible]	—	—	—	—	—
Two years	—	—	10⅞	—	—	—	—	—	—	—

ECGD Fixed Rate Export Finance Scheme IV Average Rate for interest period January 5 to February 1 1983 (inclusive) 11.327 per cent.

Local authorities and finance houses seven days' notice others seven days fixed. Long-term local authority mortgage rates nominally three years 11¾ per cent; four years 11⅞ per cent; five years 11⅞ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rate for four month bank bills 10⅝ per cent; four month trade bills 11¼ per cent.

Approximate selling rate for one month Treasury bills 10[illegible]-11 per cent; two months 10¾-10[illegible] per cent and three months 10½-10[illegible] per cent. Approximate selling rate for one month bank bills 11 per cent; two months 10[illegible]-10[illegible] per cent and three months 10[illegible]-10[illegible] per cent; trade bills 11[illegible] per cent; two months 11⅛ per cent and three month 11⅛ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 11 per cent from February 1 1983. London and Scottish Clearing Bank Rates for lending 11 per cent. London Deposit Rates for sums at seven days notice 8 per cent.

Treasury Bills: Average tender rate of discount 10.6345 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held under one month 11¼ per cent; one-three month 11¼ per cent; three-six month 11 per cent; six-12 month 10¾ per cent. Under £100,000 10½ per cent from February 16. Deposits held under Series 3-5 10¾ per cent. The rate for all deposits withdrawn for cash 8½ per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES (Market closing rates)

Feb. 18	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	11½-11⅝	11⅜-11⅝	11[illegible]-11[illegible]	11[illegible]-11[illegible]	10[illegible]-11[illegible]	10⅞-11
U.S. Dollar	8⅝-8⅞	8⅝-8⅞	8¾-9	8[illegible]-9[illegible]	9[illegible]-9[illegible]	9½-9¾
Can. Dollar	9-10	8¾-9½	9¼-9½	9¼-9½	9⅜-9⅝	9⅞-10⅛
D. Guilder	4[illegible]-4[illegible]	4¼-4⅝	4¾-4⅞	4¾-4⅞	4⅞-5	5¼-5⅜
S. Franc	1½-1¼	4¾-5	2½-2⅝	2⅞-3	3[illegible]-3[illegible]	3[illegible]-3[illegible]
Deutschm'rk	5[illegible]-5[illegible]	5½-5⅝	5[illegible]-5[illegible]	5½-5⅝	5⅜-5¾	5[illegible]-5[illegible]
French Franc	14-16	16½-18	23-24	23-24	21¼-22	18½-19¼
Italian Lira	—	19¼-21¼	21¾-23⅝	22½-23⅜	22-22⅝	21½-22⅜
Belg. Franc. Conv.	11-12	12½-14	13¼-14	14¼-14¾	14-14½	13-13½
Fin.	11⅞-12½	13-12¼	12⅛-12⅜	12⅛-12⅜	12⅛-12⅜	12⅛-12⅜
Yen	6¼-6½	6[illegible]-6[illegible]	6½-6⅝	6⅜-6⅝	6[illegible]-6[illegible]	6[illegible]-6[illegible]
D. Krone	—	14½-16½	16⅛-17⅝	17⅛-19	17⅛-18⅝	17⅛-18⅝
Asia $ (Sing.)	8⅞-9	8[illegible]-9[illegible]	8[illegible]-9[illegible]	9[illegible]-9[illegible]	9⅛-9⅜	9[illegible]-9[illegible]

FT LONDON INTERBANK FIXING

(11.00 a.m. FEBRUARY 18)

3 months U.S. dollars		6 months U.S. dollars	
bid 9 1/16	offer 9 3/16	bid 9 5/16	offer 9 7/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	11
Fed funds (lunch-time)	8½-8⅝
Treasury bills (13-week)	7.98
Treasury bills (26-week)	8.11

GERMANY

Lombard	6.0
Overnight rate	5.50
One month	5.475
Three months	5.775
Six months	5.75

FRANCE

Intervention rate	12.5
Overnight rate	12.9375
One month	12.9375
Three months	13.125
Six months	12.8125

JAPAN

Discount rate	5.5
Call (unconditional)	6.53125
Bill discount (3-month)	6.84375

SWITZERLAND

Discount rate	4½
Overnight rate	½-1½
One month	2½-2⅝
Three months	2⅞-3

NETHERLANDS

Discount rate	4½
Overnight rate	5-5⅛
One month	4⅞-5
Three months	4⅞-5
Six months	5⅛-5⅜

$ CERTIFICATES OF DEPOSIT

One month	8.60-8.70
Three months	8.65-8.75
Six months	8.85-8.95
One year	9.20-9.40

LONG TERM EURO $

Two years	10¾-11
Three years	11-11¼
Four years	11⅛-11⅜
Five years	11⅜-11⅞

SDR LINKED DEPOSITS

One month	9[illegible]-9[illegible]
Three months	9⅞-10
Six months	9½-9⅞
One years	9⅝-9⅞

ECU LINKED DEPOSITS

One month	11[illegible]-11[illegible]
Three months	11⅞-12¼
Six months	11½-11⅞
One year	10⅞-11¼

FINANCIAL TIMES SURVEY

Monday February 21, 1983

Pension Fund Investment

Buoyant investment returns over much of last year have brought Britain's pensions industry to a fresh pitch of prosperity. Its great wealth, however—assets of over £80bn—makes it a focus of growing debate about its functions in society

Prosperity invites wider public role

BY BARRY RILEY

THESE ARE prosperous days for Britain's occupational pension schemes. Swollen by the buoyant stock market over the past year, their aggregate assets probably now total well over £80bn. Those assets are continually being added to by net cash inflows which, despite a slight hiccup in the second quarter of 1982, are running at more than £6bn a year.

The returns on portfolio investment in 1982 were extremely high. Thus the total return on longdated gilt-edged securities (capital appreciation plus interest) topped 50 per cent; the return on UK equities, as measured by the FT-Actuaries All-Share Index, was 29 per cent.

Sterling's weakness has boosted the return on overseas equities and although the results will have varied widely from one fund to another, a return of around 30 per cent was probably common last year.

Only UK property among the major classes of assets turned in a disappointing performance—a return of perhaps little more than 5 per cent.

What has made these high returns in most asset categories especially encouraging is that they have been achieved at a time of collapsing inflation. From 12 per cent in 1981, retail price inflation halved in 1982 and on latest figures is running at under 5 per cent year-on-year.

The real return on investment has therefore been very substantial. Assuming an average return across all assets of 30 per cent for 1982, the real return will have been some 23 per cent. Strictly speaking, though, this may be a slight exaggeration because pension fund liabilities are linked to employee earnings rather than general price levels and the fall in wage inflation has not yet been so complete.

Nevertheless, the implications for future wage inflation are clearly hopeful, as far as pension schemes' liabilities are concerned. Those numerous funds which top up their payments to existing pensioners either partially or fully in line with retail price inflation will find the burden easier than in any year for more than a decade.

Another less noble reason for financial prosperity in pension schemes is that the recession in the economy has caused a large-scale shakeout of employees. It is common (though not universal) practice that so-called early leavers receive only a deferred pension frozen in nominal terms. An unusually large exodus of scheme members can therefore provide a significant boost to the fund's actuarial solvency. But there can also be an outflow of lump sums and early pension payments.

At any rate, pension funds have now recovered from the investment shocks which hit them so badly almost a decade ago and sent some of them scurrying in search of "alternative assets" like gold or fine art which might offer the hope of real returns in inflationary conditions.

Even now, however, the ten-year history of pension fund investment is slightly tarnished. According to brokers Wood Mackenzie, who operate a specialised fund performance measurement service, there have been negative real returns for this period taken as a whole.

Better picture

But the base year 1972 was in many ways a freak. The 20-year picture is better, with substantial real returns on UK equities being only partly offset by the poor performance of gilts, leaving a theoretical average return of near 1 per cent in real terms.

This may be an optimistic view of the actual experience of UK pension funds, which have probably shown small negative returns (though very likely less than 1 per cent real) over 20 years. Still, there has been consistent recovery since the nadir was reached in 1974. Two out of the past three years (1980 and 1982) have shown very good returns indeed.

If the better returns prove to be durable, pension schemes will be able to consider how the benefits should be utilised. Already there has been a favourable effect on companies, in that the wave of emergency topping-up of pension funds, so common in the second half of the 1970s, has died away.

The next step could well be that hard-pressed companies will demand that better investment performance should be reflected in lower contribution rates (and even the possibility of contribution "holidays" has been discussed). On the other hand, scheme members will press for improved benefits, notably contractual indexation of pensions in payment and of deferred pensions to which early leavers are entitled.

One sizeable scheme has already responded to the better climate. Earlier this month Rank Xerox announced that it intended in future to inflation-proof all pensions—whether present, future or deferred. This was a pledge made by the company, though it was unable to give a full guarantee that the inflation-proofing might not be withdrawn in extreme circumstances.

A favourable age structure of the workforce and a good investment performance are among the reasons for the Rank Xerox decision. Rival schemes will note, however, that even after a 1½-point cut in the company's contribution rate to 19 per cent, the combined funding rate (of employer plus employee) is still 24 per cent.

This is much higher than the average for UK pension schemes and underlines that even in improved circumstances full inflation-proofing is a luxury that most companies will be reluctant to pay for.

Nevertheless, with the Government gradually increasing the availability of index-linked gilts and so making it harder for funds to claim that they cannot guarantee to match inflation, the need for inflation-proofing of benefits will remain a hot issue for the pensions industry.

At this stage, however, most schemes appear to be concentrating on a policy of diversifying their assets still further rather than of concentrating upon indexed gilts.

Rush overseas

The major feature of pension fund investment policy in the past couple of years has, of course, been the rush overseas, which began in earnest after the end of exchange controls late in 1979 and has built up since then.

For a start, 10 per cent was often quoted as a target for exposure to overseas equities but many funds (especially those managed by merchant banks) are now aiming higher than this. It is said, however, that 20 per cent is something of a sticking point for pension scheme trustees.

The increasing perception during 1982 that sterling was overvalued and heading for a fall acted as a spur to fund managers to invest overseas. Indeed handsome currency gains have been achieved, even though the initial underlying investment returns in most overseas equity markets have not been notably better than those obtainable on the booming London Stock Exchange.

Official statistics show that pension funds invested £1.39bn in overseas equities in 1980, rising to £1.52bn in 1981 (against £1.8bn invested in UK equities in that year). By the third quarter of 1982 more money was actually being invested by UK pension funds in overseas equity markets, notably those of the U.S. and Japan, than was going into UK equities — the figures for July-September were £396m against £308m.

At times, significant levels of investment in foreign (mainly dollar) bonds have also taken place, these probably being regarded as short-term trading vehicles rather than as long-term holdings.

Such movements into the international markets have reflected a noticeable change of attitude among pension funds, which often used to argue quite firmly that because they had UK liabilities expressed in sterling—the pensions of scheme members—a potentially risky mismatching occurred when funds bought overseas assets.

This no longer appears to be felt so strictly. In fact one City merchant bank, Guinness Mahon, is launching a multi-currency cash deposit fund largely aimed at pension fund clients, an indication that some pension funds are ready to let sterling slip from its pedestal.

The argument is that, in the end, pensions are determine by international prices of commodities like food and energy, so that currency matching is not a fundamental requirement.

To some extent the high volume of overseas investment may be a temporary phenomenon, reflecting the unduly low weighting of international assets in pension fund portfolios after many years of exchange controls and also the desire to exploit the high level of sterling while it persisted.

Resentment

But the rush abroad has created resentment across the left of the political spectrum and the pension fund industry will have to be prepared for retaliation should the Labour Party ever return to power. The TUC is developing its proposals for a National Investment Bank and is generally urging that the vast capital resources of the pensions industry should be used to build up the British economy rather than being encouraged to roam the rest of the world in search of a likely profit.

Even in the event—likely, as it seems at present—of a Conservative victory at the next General Election, the pension funds will face political challenges. They have already responded to criticism that they have neglected the area of finance for small businesses and now face demands for a flexible response to the problems of depressed regions and crumbling inner cities. More and more, in addition, they are coming under pressure to fulfil a proprietorial role in industry and commerce, by intervening where necessary to strengthen management in quoted companies.

In an actuarial sense the pension funds have made encouraging progress in the past few years. In a political sense, they have a great deal yet to do.

MARKET VALUE OF PENSION FUND ASSETS
(£bn)

	1979	1980	1981	1982
Private sector	23.6	31.5	36.4	48.0†
Local authority	5.0†	7.5†	8.0†	10.8†
Other public sector	12.3	15.7	18.7	24.1†
Total	40.9	54.7	63.1	82.9†

Source: Financial Statistics or † Phillips and Drew estimate.

CONTENTS

Unemployment trims the contributions

THE SQUEEZE on the economy has gradually caught up with the pension funds over the past two years. Following the extremely buoyant cash flow generated in the highly inflationary environment of the late 1970s, the funds' finances are now being affected by the twin factors of declining inflation and rising unemployment. Official figures for the first three quarters of last year suggest that the pension funds may have generated only as much net inflow last year as in 1981.

By far the most important factor in this slowdown is the rise in unemployment, which imposes a two-way restriction. Overall numbers in jobs are now falling, putting a brake on new income from contributions; at the same time pension funds are having to find the cash to finance early retirements and lump sum payments. The outflow on such payments seems to have been particularly strong in 1982, as corporate reorganisations began to bite more deeply on white-collar employment, where the funds' obligations are higher. But at the same time the funds' long-term liabilities have also been reduced.

Private funds have clearly been the most deeply affected by these trends. Central Statistical Office figures show that in the first two quarters of last year net new investments by private sector pension funds fell to £1.6bn against £1.8bn in the corresponding period of 1981—when cash flow was already falling from the records achieved in 1980.

Similar patterns, though not so acute, also seem to be developing in the nationalised sector, partly no doubt as a result of the cutbacks at the BSC. As a result cash flow fell sharply to £1bn in the first half-year against £1.2bn in 1981, having risen strongly year by year since 1977. The exception to this trend is the local authorities, where the funds have been insulated by the steadier employment pattern; income available for new investment activity rose strongly in the first nine months of last year to £874m against £824m.

Given the pension funds' exposure to these employment factors, the recovery in their cash flow depends on the reappearance of growth in the economy and a reversal of the recent wave of industrial reorganisations. Some analysts now believe that the low point has been passed, although much will clearly depend on the strengthening of the current recovery trends in the economy.

One of the most pronounced trends in the pension funds, recent investment policy has been to push an increasing amount of money overseas. This process began after the removal of exchange controls in late 1979 and continued strongly until at least the middle of last year, according to the official statistics. Unofficial estimates suggest that the outflow has shown no signs of slackening as yet. Indeed some analysts argue that the prospect of an early election and the return of a Labour Government that would probably reintroduce exchange controls is helping stimulate the move overseas.

The drive overseas is a new element in the funds' policy of risk diversification. Many funds, in both the private and public sectors, now have a target for overseas assets holdings of between 15 and 20 per cent of their total holdings. At the same time they have also taken advantage of the strength of sterling over the last few years to buy overseas securities at attractive prices—which look even better now in terms of investment income as sterling depreciates.

Official figures give no clear breakdown on the direction of these outflows. It is strikingly clear, however, that the move began in the last three months of 1979 and has accelerated steadily from then on. The quarterly outflow of the pension and life funds combined rose from £144m in the third quarter of 1979 to £665m in the corresponding period of 1982. In the first nine months of last year it was running at £1.9bn, roughly the same level as in the corresponding period of 1981.

About 90 per cent of these investments, according to the official statistics, went into equities, almost certainly in the U.S. and Japanese markets, where there is sufficient liquidity to attract the pension funds. Some money has also gone into property; but the most striking change in the last year was a switch into Government-issued bonds—particularly in the U.S.,

Flow of funds

TERRY DODSWORTH

where yields remained exceptionally high during 1982.

The strength of expenditure overseas at a time of stagnating cash flow has meant a drift downwards in domestic investment. In 1981 the pension funds spent only £1.8bn in the gilt market against £2.1bn in the previous year, while investment in ordinary shares fell from £2.2bn in 1981 to £1.8bn. In the first half of last year there was a further dip in gilt investment—to £426m against £860m—while ordinary share investment rose only slightly from £921m to £947m.

Virtually all of this decline is explained by the squeeze on the private sector pension funds, which reduced their expenditure virtually across the board in 1981. A slight upward move in property investment, from £330m to £367m, was more than counteracted by a decline from £2bn to £1.5bn in ordinary share acquisitions and from £1.4bn to £970m in gilts. In the first half of last year the private funds ran down their gilt investments even more sharply, presumably taking advantage of the strength of the market to take profits.

In the first half of last year, the nationalised industries also began to be hit by similar pressures of a stagnating cash flow. Net acquisitions by the nationalised funds fell to £1bn in the six-month period from £1.2bn in 1981. Hence the investments of these funds were cut back in most sectors, apart from property.

The local authorities, by contrast, enjoyed relatively buoyant cash flow during the same period, stepping up their investments particularly in the equity and property markets. Third quarter figures for last year show a sharp divestment of gilts as they took profits in the extremely firm market conditions.

The main question now hanging over the pension funds is whether cash flow will recover this year. This has been a subject of considerable debate recently, with some commentators arguing that the funds have already passed the peak of their financial strength. But in a recent paper Simon & Coates predict a renewed upswing in 1983, arguing that exceptional lump sum payments have been the main influence on inflating outflows on liabilities during 1981 and 1982. This would explain a jump in commitments which is higher than would be expected from the underlying rise in inflation and growth in the number of pensioners.

One worry is that further stagnation or decline, combined with a continuing flow of investment funds overseas, could reduce liquidity in the London debt market. The signs are at the moment that funds are continuing to maintain their exposure overseas and that these flows may even pick up as the possibility of a change of government and re-imposition of exchange controls is highlighted during an election period. In order to counteract these trends, it is felt that the authorities may step up their issues of index-linked bonds to divert funds into the home market.

There is a growing body of opinion which feels that the institutions should throw more of their financial weight behind the country's economic recovery and development

Union campaign highlights social issues

THE VALUE of British pension fund assets has grown from £10bn in 1971 to more than £80bn today. It is an awesome pool of capital — and as tempting to the politician as the proverbial honey pot.

Even Conservative Ministers, in a period of heavy restraint on public expenditure, are inclined to cast a covetous eye in the direction of the pensioners' over-sized nest-egg when seeking to finance pet projects beyond the reach of a stretched departmental budget.

The main political pressures on the pensions business come, however, from the TUC and the Labour Party. More often than not they take the form of a call for direction of pension fund investment into projects designed to promote industrial investment and employment.

The first such demand to claim public attention came in a minority report to the Wilson Committee's findings on the workings of Britain's financial system. A group consisting mainly of trade unionists, with TUC leader Mr Len Murray conspicuous among them, argued the case for a National Investment Bank, to be financed by pension fund money, which would aim to stimulate growth by supporting investment in industry.

Since then the idea has been expanded. In a report to the TUC Congress and Labour Party Conference last year the TUC-Labour Party Liaison Committee proposed that the new bank should channel both public and pension fund finance towards investment priorities laid down by a new Department of Economic and Industrial Planning.*

The TUC meantime has produced a much wider critique of pension funds. This attacks the outmoded nature of trust law under which they operate and poor standards of accountability in the pension fund movement, as well as laying blame for lack of industrial investment partly at the pension funds' door.

In a report on pension fund investment and trusteeship it claimed that there had been too little investment in venture capital, and too much investment in property and overseas securities at a time when large parts of British industry were being forced to close down. At the same time the TUC argued strongly for pension fund investment in local enterprise boards.

Unless the Labour Party's fortunes improve rapidly and dramatically, these proposals will not find their way into legislation in the short term. But they do affect the climate of opinion. A growing number of trade unionists who sit on pension scheme trustee boards are bound to pay closer attention to the political implications of their investment activities.

In one particular respect the likelihood has been increased by the Government. By proposing that the rules for contracting out of contributions to union political funds should be revised, the Green Paper produced in January by Employment Secretary Mr Norman Tebbit has widened a debate about the financing of political parties that has until now been relatively muted. Union trustees do not have the majority voting power to ensure that their own pension funds refuse to invest in companies that contribute to Conservative Party funds—but that may not prevent them from stirring the pot noisily.

In the past, however, most trade union trustees have been content to go along with the investment policies set out by their funds' investment managers. They tend to be both conservative, with a small "c," and dubious about the merits of any investment proposals that do not appear to be in the narrow financial interests of the beneficiaries. Interestingly, many of the participants at the TUC's pension fund conference last November were not convinced of the case for the National Investment Bank and felt that its role and *modus operandi* needed clarification.

But the scope for more radical action has been underlined by the arrival of Mr Arthur Scargill on the pension fund scene. On succeeding Mr Joe Gormley (now Lord Gormley) as president of the National Union of Mineworkers he took the unprecedented step, in his capacity as a trustee of the Mineworkers Pension Scheme, of refusing to accept the scheme's business plan for the year.

With his fellow union trustees he rejected the fund managers' proposal that there should be further investment in overseas securities and property. He also opposed investment in oil or other energy-related businesses which were in competition with coal.

In one sense Mr Scargill is acting with more responsibility than those union-appointed trustees who are content to give unquestioning support to their fund manager. "If I'm the manager of a fund as a trustee, then I'm going to manage it and I'm not having somebody from the centre of London with a carnation in his buttonhole telling me what to do," is how he recently put his point of view. There are, moreover, many trustees on the management side in British industry who feel the same as he does about buying shares in competitor companies. Yet the political dimension of his actions is undeniably controversial.

To some extent the emotive arguments about direction of investment are misleading. There has always been some measure of direction whether of a blanket kind, such as the long-standing exchange controls which the Government lifted in 1979, or a more specific kind. It is not widely recognised, for example, that local authority pension funds have been restricted by statutory limits on their investment in overseas securities, property and unquoted securities.

Critics on the Left also argue that pension fund investment is anyway affected by a different sort of direction. Mr Richard Minns, for example, has claimed in recent books,† which have had considerable influence in Labour and trade

Political pressures

JOHN PLENDER

union circles, that an excessive proportion of pension fund investments are channelled by merchant banks advisers into the financial and banking sectors of the stock market, reflecting a disproportionate (and historic) preoccupation with finance at the expense of manufacturing.* Deep-seated social attitudes are said to affect the pattern of portfolio investment as well as the level of industrial investment.

Yet nothing can disguise the fundamental difference of view between the City and the Labour-TUC camp over the role of pension fund money in British industry. While the City Capital Markets Committee and others have put counter-arguments to the TUC on the National Investment Bank and on investment in those areas that the Left regards as unproductive, there is no sign that anyone has changed his views.

What can be said is that there is a growing recognition of the need for some wide form of legislation to govern the pension funds' activities, covering disclosure, the legal framework and supervision. Admittedly there are still some members of the National Association of Pension Funds who continue to view the prospect of legislation with unremitting hostility. But theirs is an increasingly isolated position and it is noteworthy that the NAPF's authority as well as the quality of its response to current pensions issues, has been publicly questioned recently by the President of the Institute of Actuaries.

In fact legislation is inevitable. In his response to the Occupational Pensions Board's latest report Mr. Norman Fowler, Secretary of State for Social Services, declared that the Government accepted in principle the need for legislation at least on disclosure. A Whitehall working party under a senior official of the Department of Health and Social Security is now taking a wider look at the law and conventions governing the conduct of pension funds.

As for the pension fund trustees and managers themselves, they have also tended recently to take a broader view of the financial interests of their beneficiaries. An obvious case in point is their discreet genuflection to the lobby for socially conscious investment, especially in the small business area where economic returns can be had.

Meanwhile the overseas investment controversy could catch more of the public's attention as a general election approaches. The struggle to lay a political hand on the pensioners' £70bn seems certain to intensify.

* *Economic Planning and Industrial Democracy — the Framework for Full Employment.* TUC-Labour Party Liason Committee, 1982.

† *Pension Funds and British Capitalism* by Richard Minns. Heinemann, 1980. *Take over the City — the case for public ownership of financial institutions* by Richard Minns. Pluto Press, 1982.

What pension fund sponsors like most about Morgan for international diversification

Some of the Morgan officers responsible for international investment management share news and trend data at a meeting in London. Shown, from left, are Rudolph Leuthold, Walter Zinsser, and Bernard Rattray, London; Nancy Kyle, New York; Mark Tapley and Chilton Thomson, London.

Major investors in the U.K., Europe, Africa, Asia, Australia, and South America—in addition to North America—increasingly turn to The Morgan Bank for active international portfolio management.

Our London Office manages nearly £900 million in internationally diversified equity and bond portfolios for a wide variety of clients, including pension funds, foundations, insurance companies, and government organisations. We earned this leadership position by developing a multinational team of professionals and by achieving an outstanding record of performance.

Headquarters in London

Our international investment team is headquartered in London, and includes professionals in Tokyo, Hong Kong, Paris, and New York.

At Morgan, international diversification is actively managed and based on careful, on-the-spot research. This kind of management broadens the range of investment options. It can smooth the cyclical bumps that are likely to jar a one-economy portfolio. It can turn inflation differentials and currency fluctuations into investment opportunities rather than hazards.

Morgan's special resources

Active fund management requires special resources. Besides its own multinational research, Morgan's international investment team has access to country-by-country studies by the bank's international economists, and the currency judgements of our foreign exchange specialists in the world's money centres.

The flow of information and analyses from these experts is coordinated systematically, enabling our managers to build portfolios that balance risk and return in accord with each client's specific objectives.

Investment follow-through is as important to us as creating a portfolio. Whatever the market, our skilled traders know how to execute purchases and sales effectively. Our worldwide custody network combines maximum protection of securities with the flexibility demanded by our policy of actively managing assets in each local market.

Call on Morgan

Morgan can help you benefit from actively managed international diversification. For specific information, write or call Anthony G. Bird, Vice President, Morgan Guaranty Trust Company, 30 Throgmorton Street, London EC2N 2DT; telephone (01) 600-2300.

Member FDIC. Incorporated with limited liability in the U.S.A.

The Morgan Bank

No rush for index-linked gilts

WHEN INDEX-LINKED gilts were introduced two years ago pension fund managers ran off to check what the small print of their personal pension schemes said about premature retirement.

After all, the argument went, why should not pension fund trustees sack their highly-paid portfolio managers and associated research teams, liquidate their holdings and put all the money into a range of index-linked gilts with appropriate redemption dates?

Certainly the average pension fund manager could be forgiven for wondering whether all his frenzied activity over the last 10 years in price-watching, forecasting, buying and selling was worth it. At the end of it all he achieved an average annual nominal rate of return of 11.5 per cent, according to figures just published by stockbrokers Phillips and Drew. With inflation running at an average rate of 14 per cent from 1973 to 1982, this translates into an *average real return of minus* 2.2 per cent per year—a worrying statistic for funds whose liabilities are becoming increasingly inflation-adjusted.

With index-linked gilts he *can now achieve an average* real return of *plus* 2.5 per cent with no risk whatsoever (unless the Government defaults and then we'd all be lost)—and without doing a stroke of work. As Mr Alan Baker, managing director of Warburg's investment management, said: "Index-linked gilts are an effective way of opting out of the rat race."

Yet 21 months after their introduction on December 31 1982 index-linked gilts made up only 3.5 per cent of the average portfolio of private sector pension funds (according to Phillips and Drew estimates). No less striking, the holdings of conventional gilts were as high as 20.2 per cent despite the fact that accelerating inflation has ensured that their average real return has been negative for 40 years.

In fact since March, 1981, some pension fund managers have started to view index-*linked gilts less as a substitute* for conventional gilts than as a substitute for property investment, although opinions are divided. "Most trustees still regard index-linked and conventional gilts as being alternative ways of making the same form of investment," said Mr Baker. "But it might be better to regard them like property holdings with six-monthly rent *reviews or even as equities in* UK plc."

All the forces of conservatism favour continued holdings of fixed-interest Government securities which for many years *made up the largest part of* pension fund portfolios. For most of the past century trustees were legally restricted to investing only in Consols and even the 1925 and 1961 Trustee Acts gave the official seal of approval to conventional gilts as hazard-free investments (thus overlooking the hazards of inflation).

As Mr Mick Newmarch, managing director of Prudential Portfolio Management, said: "Conventional wisdom of 20 years ago was that gilts were the safest thing to hold. And today, although many trustees and portfolio managers take a risk-*averse view, the risk is defined* only in nominal terms. Very few are prepared to admit that they should have no conventional gilts in the future even though this might be the most sensible course for them to take."

Some of the more sophisticated fund managers openly admit the risks they are taking by holding fixed nominal interest Government securities. But with the nominal redemption yields on long-dated high coupon conventional gilts standing at around 12 per cent (and thus more attractive than index-linked gilts if inflation remains below 9½ per cent), this is a risk they are prepared to take.

Mr Geoffrey Dutton, a director of Lazard's, which has achieved a higher than average rate of return over the past five and 10 years for the pension funds under its management, said: "We believe you have to take a view and take risks. Investment is something which is more of an art than a science."

Actuaries have added to the pressure on pension fund managers to achieve a higher real rate of return than that *offered by index-linked gilts* (about 2½ per cent). They normally stipulate a rate of return 1 to 2 per cent above the annual

Inflation

COLIN WOLMAN

average rise in wages and salaries, which themselves have increased over the last 50 years or so by an average of about 2 per cent more per year than the retail price index.

The Government Actuary has been more lenient in his decision that 3 per cent is a reasonable real rate of return over the retail price index for a pension fund to achieve. The Committee of Inquiry into the value of pensions headed by Sir Bernard Scott took an even more conservative view considering that 3 per cent real was at the top end of reasonable requirements, taking into account "the relative power of capital and labour."

In addition, all the requirements laid down by actuaries take into account the fees that have to be paid by an actively *managed fund to its portfolio* managers. Once this element is removed, the lower range of acturial demands is close to 2½ per cent.

Nevertheless, it remains true that, ignoring short-term fluctuations, an investment in a diverse portfolio of equities would have produced a higher real rate of return than 2½ per cent since the 1930s. A recent paper submitted to the Institute of Actuaries by Mr David Wilkie uses the FT-Actuaries 500-share index (and its predecessor) to show that between 1930 and 1980 the gross real rolled-up return (achieved by re-investing all dividends) from UK equities was 4.2 per cent per year. And this ignores the possibilities of equity investment abroad.

Mr David Mumford, director of the Schroder Group merchant bank, said: "Pension fund trustees may be cautious but they don't overlook the fact that over 30 to 50 years ordinary shares produce a higher real return."

One compromise solution suggested as a possibility by Mr Baker is to adopt a modified version of the U.S. model for pension funds. One could have a core portfolio of index-linked gilts making up 60 to 70 per cent of the total value of the fund, while the remaining assets could be invested in equities.

At present the Government has not issued anything like enough index-linked gilts to permit pension funds to adopt such a policy. Even a small increase in their popularity would push up prices significantly and depress real redemption yields.

In the longer term, however, the adoption of such a policy would compel the Government broker to issue all his medium and long-term debt in an index-linked rather than conventional form—unless he was prepared to offer prohibitively high nominal coupons on conventional gilts.

More important, there are already other inflation-proof investments available which pension funds have been reluctant to exploit. One of these is the Lazard Index Linked Mortgage Unit Trust which aims to attract investments from pension funds and other tax-exempt institutions. The scheme has considerable attractions for the borrower, both residential and commercial, as the initial repayments are much lower than with conventional bank or building society mortgages.

The investor is offered a real return of at least 4 per cent per year, enough to satisfy any actuarial requirement. And in the event of a default by the mortgagor, the risks are minimal as the mortgage is allowed to cover only two-thirds of the initial value of the property.

A modified and slightly riskier version of this scheme is one introduced a year ago by the Building Trust, which links the debt repayable by the home owner to an index of national house prices. The interest to be paid is two-thirds of that set by the building societies for conventional mortgages.

Even over the last 12 months, which was not an outstandingly good period for house prices, the nominal return on an investment in the Building Trust was 13.5 per cent, or 7.5 per cent above the rate of inflation. Yet whereas the demand for Building Trust mortgages in the first three months of its operations amounted to £1,500m, the supply of funds in the first year reached only £1m, with another £2.5m in the pipeline, according to managing director Mr Robin Ellison.

Similarly, investment in the Lazard's scheme has reached only £2.4m, nothing like enough to satisfy demand. "It is a matter of waiting for pension fund trustees to understand and get used to the idea," said Mr Tony Puckridge, of Lazard Securities.

The pension fund managers complained of the lack of liquidity of the investment while the funds remained small. "We would swamp them," said one. "It is a matter of everyone waiting for everyone else."

But perhaps the underlying reason has something to do with the conservatism of pension fund trustees in an inflationary age and their reluctance to extrapolate from the experience of the 1970s. It is not just a coincidence that index-linked gilts were introduced just as inflation began to decline to its lowest level for 13 years and the short-term profit potential of conventional gilts soared. As Mr Baker said: "What investors need is a good dose of inflation again to make them realise the value of the guarantee of index-linked securities."

Foreign assets accepted as major element

AT THE beginning of this year sterling was in sharp retreat and the gilt-edged market was rapidly losing the remarkable gains of 1982. One explanation was readily to hand. UK institutions, with the pension funds to the fore, were shifting their portfolios out of Britain to protect themselves against the possibility of a 1983 election bringing with it a Labour Party victory, a crashing pound and soaring interest rates.

With no statistics for the first quarter of 1983 so far available, it is not possible to gauge accurately the strength of overseas investment. But the mere fact that this explanation is proferred is a striking indication of the way in which overseas investment has assumed a major dimension for institutional fund managers.

The turning point was October 1979, when the Conservative Government swept away the aged machinery of exchange control legislation. Pension funds, previously hedged in by the dollar premium, were then free to invest overseas purely on the basis of available returns.

That, at least, was the theory. In practice overseas investment has been a considerably more complicated matter. Fund managers, particularly in the public sector, have been answerable to trustees who have often been suspicious of investment outside the UK on political — as well as purely commercial — grounds.

Fund managers have also needed to justify the accumulation of foreign currency assets as a match against liabilities which are denominated overwhelmingly in sterling. The U.S. pension fund industry, which is more closely regulated than the UK's, has only recently been permitted to mismatch currencies in any significant way.

A further constraint has been the historic absence of expert investment advice on foreign markets within the pension funds themselves. Many of the larger funds are well equipped to deal with Wall Street but even then they may need to

Investing abroad

JOHN MAKINSON

buy in expert advice on Silicon Valley stocks, venture capital equity or property investment in Idaho. As for Hong Kong or South Korea, outside information has been essential.

Finally, pension funds have been torn between the belief that their primary responsibility is to produce income and the view that, over the long-term, total returns are all that matter. Japan has for the past ten years on average produced total returns—in sterling terms—far in excess of the equity return available on the FT-A All-Share Index. Yet in terms of yield the Tokyo Stock Exchange lags far behind either London or New York.

It is therefore not surprising that the past three years have failed to establish any broad consensus within the pension fund industry about the optimal level of overseas investment. On average, holdings of overseas assets have risen from about 5 per cent of total holdings, in the months before October 1979, to about 15 per cent.

But those figures disguise considerable variations among even large and sophisticated pension funds. The Courtaulds fund, for example, will admit to having 28 per cent of its assets overseas — more than treble the level of two years ago—while Imperial Group, admittedly a heavy direct investor in U.S. property, still has only about 2½ per cent of its assets in overseas securities.

Many investment managers would argue that these numbers are in any case fairly irrelevant. It is quite possible to invest overwhelmingly in overseas earnings through UK companies listed on the London Stock Exchange. The largest UK companies earn, in aggregate, *at least 50 per cent of their profits* either from exports or from translated overseas earnings—a fact which is as small influence on their dividend policy, as the past three years have shown. Conversely, it is easy enough to gain an exposure to UK earnings by buying a foreign company with a large British subsidiary.

In the tobacco industry an investment in BAT Industries of the UK is in large measure a judgment based on the prospects of tobacco consumption in the U.S. and in Brazil. To obtain a UK exposure it would be as well to buy the shares of American Brands, whose UK subsidiary — Gallaher — has a far larger presence in the British tobacco market than BAT itself. Equally, it is clearly

CONTINUED ON NEXT PAGE

Sophisticated spread of monitoring services

THE GROWING size and complexity of pension funds have made it essential for them to be monitored with increasing precision. With such huge sums being diverted into pension schemes, hard-pressed companies are urgently looking for ways of trimming the costs and the achievement of a good investment performance is one way of doing this.

Even modest improvements could mean reductions in contributions of, say, ½ or 1 per cent of the wages bill—by no means an insignificant sum. Before it is possible to seek ways of stepping up portfolio performance it is necessary to know precisely how the investment managers are already performing in relation to others.

To meet this requirement a number of sophisticated performance measurement services have been developed. On the domestic UK scene some of the leading firms of consulting actuaries such as Bacon & Woodrow or R. Watson organise pooled reports on their many clients. Assessments are also produced by several employee benefit specialists like MPA or Cubie Wood.

Another important performance measurement service is operated by stockbrokers Wood Mackenzie from Edinburgh and these brokers are also marketing an international service aimed at U.S. plan sponsors. Another international service is provided by Frank Russell, advisers to many U.S. pension schemes.

Perhaps the easiest fund managers to monitor are the life offices which operate managed funds for pension schemes. These publish unit prices (on both bid and offer bases) and MPA has already brought out a comprehensive analysis of performance for calendar 1982.

It might seem simple enough to compare changes in middle prices over a year but in practice the life offices run various specialised funds—in equities, bonds, property and maybe overseas equities or cash as well—and may operate a discretionary switching system among them.

As far as the pension fund client is concerned, therefore, performance is not just a matter of the achievements of the underlying portfolios but also depends on the timing of switches among the various markets.

(Time-weighted annual rate of return per cent)

Discretionary performances	1982 (31 managers)	1978-82 (24 managers)
Top result	45.1	22.3
Average result	32.8	17.2
Botton result	20.0	15.0
FTA All-Share Index	28.9	18.7
FTA All-Stocks Index	41.8	13.0
MPA Property Index	8.3	16.5
Cap Int World Index	28.8	—
Cash Index	13.4	14.0
Earnings Index	8.0	14.0
Retail Price Index	5.4	11.5

Source: MPA

Performance can vary widely, especially over short periods. In 1982, with almost all markets going up quite sharply, even the worst performer on the MPA list—Save and Prosper—achieved a 20 per cent rate of return on a discretionary basis. But at the top end of the scale Friends Provident recorded a figure of 45.1 per cent.

Fortunes can vary dramatically from one year to another, however. In 1981 Save and Prosper had slightly outperformed Friends Provident (both were somewhere in the middle of the table for that year).

Performance measurement

BARRY RILEY

It is only over longer periods than any consistent picture can be built up. Over five years the Life Association of Scotland emerges as top performer out of 24 offices on discretionary performance.

Whereas the life offices are open to public scrutiny, self-managed pension schemes only participate in performance measurement services on a confidential basis and only the general pattern is published, without the individual names. It also takes much longer to collect the data, so performance statistics for 1982 will not be published for some months yet.

However, the 1981 analyses are available and the Watson study, for example, embraced 235 funds. The median fund underperformed the FT-Actuaries All-Share Index by 3.2 per cent in 1981, a fairly typical result over the years. This underperformance was entirely the result, however, of the fixed interest elements of the funds. Taking the equity portions of the funds separately the median performance was 0.2 per cent ahead of the All-Share and over a period of years the funds have generally kept almost in line with this index.

The study is not only designed to tell trustees how the funds have performed in overall terms. It also aims to apportion the degree of over—or underperformance between market selection—ie, whether the fund was in gilts when it should have been in equities, or vice versa—and selection of individual shares and bonds.

All this can be rather hard for trustees to follow if they are unskilled in analytical techniques—as most of them are. In the U.S. still more sophisticated measurement systems are frequently used, employing risk analysis which aims to separate out the extra returns which can be obtained from investing in more volatile shares.

In a bull market the riskier shares (with high beta coefficients) will tend to outperform the market as a whole, which may look good for a while, but they also tend to fall faster in a bear phase.

Such analysis is still rare in the UK but it is common for pension fund consultants to develop a perception of the "style" of various investment management houses. Some, especially the so-called "boutiques," go all out for performance despite the accompanying risks. Others adopt a stodgier but more reliable approach.

In advising a scheme's trustees on which managers to hire consultants will bear in mind the kind of approach which they think the particular trustees would be happy to live with.

With larger funds it is quite common to divide the scheme's assets between two, three or even more separate investment managers. This is partly to introduce a competitive element.

But another motive is to introduce a variety of different styles which can balance each other within the overall framework of the scheme.

The net result, the trustees may hope, will be that the fund in aggregate will perform more closely in line with the median fund performance each year than would be the case if the fund had a single manager.

Yet no matter how they diversify the fund management responsibilities the trustees will every now and then have to take awkward decisions on the basis of the sheafs of performance measurement statistics with which they are showered.

Normally performance is measured every three months. It would plainly be wrong to fire a manager after a single bad quarter but the threat is enough to give rise to anxiety that such frequent measurement can distort the judgment of investment managers.

In the U.S. there is frequent talk of quarterly window dressing by investment managers as they dump poorly performing shares in order to get them out of the portfolio list by the quarter's end.

In the UK this practice is not so evident but on the other hand there has been widespread criticism of pension fund managers for selling shares to so-called dawn raiders motivated by the desire to make quick profits.

It is up to the trustees to strike the right balance here. To tolerate bad performance year after year would not be to discharge their responsibilities properly. Frequent performance measurement adds an element of competition and keeps investment managers on their toes.

Foreign assets major element

CONTINUED FROM PREVIOUS PAGE

absurd for an investment in Unilever NV to rank as an overseas investment merely because the stock is quoted in Amsterdam, whereas a purchase of Unilever PLC represents a domestic investment.

Moreover, the extent to which pension funds can easily build up a sizeable portfolio of overseas assets is determined partly by their own cash flows. Funds operating on behalf of expanding companies may find it a good deal less troublesome to buy equities in Singapore than those which are having to contemplate the sale of their gilt-edged because of the divestment or closure of subsidiaries.

The basis of calculation is in itself rather suspect. Many British companies built up large U.S. property portfolios, in the days before the abolition of exchange controls, mortgaged against U.S. debt. The proportion of overseas assets in the total portfolio can therefore be measured either on a gross basis or after the deduction of—often very attractive—fixed-rate mortgage finance.

The relative underperformance of UK financial markets has recently tended to boost the overseas component. Over the 12 months to the end of January investors will have received a total return of 26.2 per cent out of the FT All-Share Index. Yet, according to stockbrokers Wood Mackenzie, the Capital International World Index has outperformed the UK by 13.3 per cent in sterling terms.

Theoretically, profits in any particular country should broadly maintain pace with inflation and exchange rate movements should compensate for inflation differentials. Over a long period — and pension funds are nothing if not theoretical long-term investors —overseas investment should entail no appreciable additional risk for the fund manager. If anything, putting money overseas should broaden risk by exposing the fund manager to industries, like airlines, which are not available in quoted form on the London Stock Exchange.

Stockbrokers Phillips and Drew have conducted a survey of average returns in a variety of stock markets, measured in sterling terms, over a 10-year period. They found that between 1971 and 1980 the UK market produced an overall average total return of 14 per cent, while the U.S. returned 8.4 per cent and Japan 21.8 per cent.

Largest

Since these three equity markets are, by a fairly wide margin, the largest in the world, the posted sterling returns are not a great advertisement for the fund manager who is seeking to spread risk through overseas investment. The returns on the debt markets of the three countries would perhaps be even more diverse than those on equities.

Even this analysis presupposes that fund managers hold their securities for a decade. In practice this is very far from being the case and returns for shorter periods produce quite dramatic differences in performance.

The Wood Mackenzie analysis shows that the Standard and Poors Composite Index in New York produced a total return of 58.3 per cent during the 12 months to January 1983—again in sterling terms—whereas the Tokyo New Stock Exchange Index managed only 20.9 per cent, a remarkable reversal of the 10-year average figures for 1971 to 1980.

Some fund managers will of course continue to outperform the UK equity, debt and property markets by dexterous use of overseas investment. Furthermore, it is apparent that — barring a sudden reimposition of exchange controls—foreign assets will continue to play a large role in the portfolios of British pension funds. But considering the vicariousness of overseas investment many pension fund managers must occasionally be tempted to park their portfolios in long-dated index-linked gilts and take a rest.

Cash and advice for small outfits

Venture capital
TIM DICKSON

VENTURE capital has been much in the spotlight on both sides of the Atlantic during the last two to three years. But it is worth bearing in mind that even in the U.S. it remains little more than a sideshow for the big pension funds.

The pool of venture capital available to back new inventions and new technologies in the U.S. currently totals around $6bn, of which perhaps 20 to 30 per cent comes from pension fund sources (as the accompanying table illustrates, the bulk of the balance is subscribed by individuals, insurance companies and large corporations). In absolute terms the figures may seem large but set against U.S. pension fund assets of well over $700bn, pension fund activity in the venture capital field appears, to say the least, somewhat peripheral.

COMMITMENTS TO U.S. VENTURE CAPITAL FUNDS
(Independent private firms only)

	Total committed ($m)			Per cent of total		
	1980	1981	1982	1980	1981	1982
Pension funds	197	200	474	30	23	33
Individuals and families	102	201	290	16	23	21
Insurance companies	88	132	200	13	15	14
Foreign	55	90	188	8	10	13
Corporations	127	142	175	19	17	12
Endowments and foundations	92	102	96	14	12	7
Total	661	867	1,423	100	100	100

Source: Capital Publishing Corporation.

The same goes for the UK, undoubtedly the country which has so far taken the lead in developing this type of financing in Europe. A recent survey of the UK venture capital scene carried out by Venture Economics, the UK subsidiary of the Boston-based Capital Publishing Corporation, shows that pension funds subscribed almost £20m of the near £150m estimated to have been raised by independent venture capital firms between 1978 and August last year. This £20m does not include "venture" money invested directly by pension funds into small high growth companies but whatever the total it is a drop in the ocean of UK pension funds' £80bn of assets.

If statistics suggest that venture capital is of marginal importance to pension funds, the reverse is not true. The last couple of years in the UK have been notable for the significant increase in specialist venture capital funds set up by professional managers and financed by traditional institutions such as insurance companies, investment trusts, merchant banks and of course the major pension funds. Venture capitalists rely for a living on crumbs from the rich men's table.

Backing small companies is of course hardly new. What marks the new breed of venture capitalist is his ability and willingness to commit management time and management resources as well as providing money. Typically he would point out that this "hands on" or "pro-active" approach is vital to the success of small fast growing markets in an era of rapidly changing markets and fast moving technology.

This investment style is essentially imported from North America—many of the UK funds, for instance, have a U.S. parent or associate—but despite hostility in some quarters to what is considered a creeping and perhaps inappropriate foreign influence certain pension funds have recently shown a much greater willingness to play the venture capital game.

Initially venture capital was considered needlessly risky, if not tantamount to gambling with members' contributions, while the absence of a flow of income from a venture capital situation in the early years upset actuaries' calculations. Today there seems to be a growing number of pension fund managers prepared to accept the long-term potential and allocate at least modest sums to support the new breed of venture capital funds.

The £10m APA Venture Capital Fund, for instance was notably successful in attracting pension fund money when it was launched in November 1981. A total of £1.4m was subscribed by private sector funds, including Ranks Hovis McDougall, Kodak, Honeywell and the privately owned W. S. Atkins Group. A further £3.8m, was put up by the British Council and National Water Council pension funds and local authority funds run by Merseyside, Manchester, West Midlands and South Yorkshire.

Mr Ron Cohen, APA's managing director, who was closely involved with the money raising, points out that other pension funds were interested but were in many cases barred by their trust deeds—one, for instance, did not invest in "illiquid assets overseas" including Jersey where for tax reasons APA is based.

Mr David Cooksey, managing director of Advent Management, which runs the £10m. Advent Technology and the more recently launched Advent Eurofund, has found potential pension fund subscribers less forthcoming. Although his funds have a certain amount of indirect pension fund support through merchant bank shareholders, he feels that others are put off "partly perhaps because of valuation problems and the lack of an ongoing income."

Mr Colin Clive, of Thompson Clive, on the other hand, manages one £3m fund which is owned entirely by pension fund shareholders—one-third of this is held by CIN Industrial Finance, the direct investment branch of the National Coal Board pension funds. He says that in his experience pension funds were among the earliest and most enthusiastic backers of venture capital in the UK and that they speak for 30 per cent of Thompson Clive's other £3m fund.

Clive's grouse is that more pension funds would be attracted but for the tax treatment of UK-based venture capital funds. He has put in a strong plea to the Treasury that limited companies carrying on the business of venture capital should be treated like investment trusts for the purpose of Capital Gains Tax. In other words they would be exempt and therefore attractive to gross funds like pension funds. Such a move would be welcomed by managers who have the cumbersome and expensive task of operating from an offshore tax haven to avoid CGT.

CIN Industrial Finance, which besides Thompson Clive also supports the Lovat Enterprise Fund and Development Capital, is one of the most active pension funds in the "venture" field. As well as the "indirect" route CIN has its own specialist team of 15 or so investment managers responsible for finding a wide range of opportunities on their own account—small quoted companies, development capital situations, management buy-outs, syndicated projects and oil and property deals, for example. CIN assets total about £140m and some £45m a year has been allocated for new investments.

A spokesman for CIN explained that the level of venture capital commitments "depends on the number of sufficiently attractive possibilities and our ability to monitor them.

"My impression is that pension funds generally are much more interested in this area than a year ago. The search for companies to back is highly competitive, with the number of funds and intermediaries in the market getting bigger all the time. We recently met an entrepreneur, for example, who had been offered terms by four different institutions."

Mr Tom Heyes, head of the investment department of the £2bn ICI Pension Fund, says the fund "is not over-interested but like others we are expressing some interest in venture capital and small companies.

"It will always be a peripheral activity. Most funds are so structured that they don't have the expertise or the numbers of staff to do the monitoring. You can't just throw a junior analyst into the job because while the sums may be small the problems you run up against are just as great as those you find with big companies."

Heyes points out that the ICI fund has just invested £½m in Baker Street, a new £12m fund advised by Development Capital. He remains cautious, though, given that UK funds "are still pretty thin on the ground."

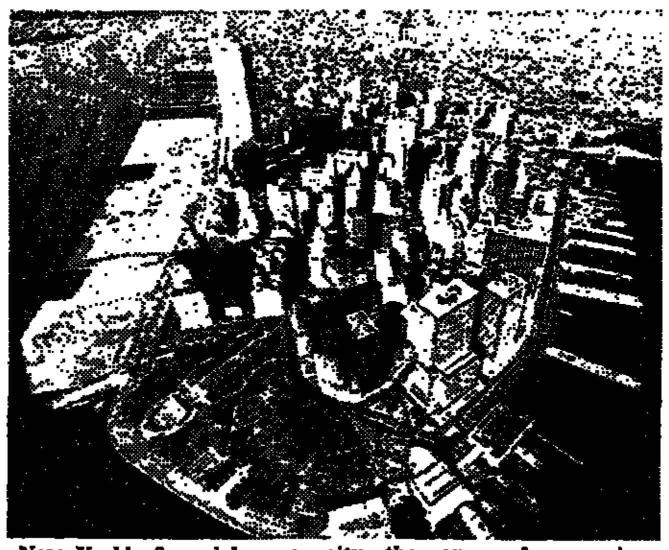
"In the U.S." he adds, "there are plenty of funds so you can work out quite easily the costs of going through an intermediary relative to doing it yourself. It is too early to do this in the UK but in principle we are certainly interested in putting up more money for this sort of activity."

Mr Donald MacDonald of the Honeywell Retirement Plan is also keen on "going in with people who know the business." Honeywells U.S. pension fund has been very active in the venture capital field via intermediaries but Honeywell's commitment in the UK is still relatively tiny.

"Being a young company our cash flow projections around the turn of the century are positive, so we have decided to move about 30 per cent of our assets into long-term situations. This will include property, oil and gas and venture capital."

MacDonald is dubious about pension fund interest generally in venture capital, and feels that it is mostly the same small group of funds which has been behind each new scheme.

Over at the £5bn Post Office Staff Superannuation Fund, Mr George Dennis says that the managers have grabbed their slice of the action both through intermediaries like high technology and small company-orientated investment trusts as well as directly on their own account. Interestingly, the Post Office has also given the Industrial and Commercial Finance Corporation a slug of money to manage on its behalf. "We are still feeling our way and will continue to lean on other groups, who teach us a lot, as well as building up our own expertise," he says.



New York's financial community—the source of a growing volume of international pensions business handled by London's investment institutions

U.S. portfolios entrusted to London care

International management
BARRY RILEY

UNTIL A few years ago British investment management houses seeking to add to their pension fund clients' lists confined their attentions to domestic schemes. More recently, however, a substantial new market for management services has opened up in the shape of the many U.S. pension schemes which have come to take international diversification seriously.

It is estimated that around $5bn of U.S. pension plan money is now handled by specialist international fund managers and the vast bulk of this is controlled from the City of London. The prospect of further rapid growth in this total has attracted many entrants into the field — there have been estimates of something like a hundred contenders —but there are probably only 10 to a dozen of any great significance.

The initial burst of enthusiasm by some of the larger U.S. pension schemes for international exposure came in 1979 and some of the London management houses look forward to a renewed flow of business as the many hundreds of medium-sized U.S. plans follow the same trail.

This might seem a little odd in the light of the generally dismal performance recently achieved by U.S. pension schemes in their international portfolios. Not only were many national markets around the world showing bad performances for much of the past couple of years—with the exception of Japan and the UK—but the dollar has been notably strong.

So in terms of dollar measurement—and that is the only way U.S. plans will look at their performance—the returns have been dismal. In 1982, for example, many schemes will have shown negative dollar returns on overseas equities, whereas their domestic U.S. equities came good later in the year and finally showed sizeable positive returns.

Thus Capital International's EAFE (Europe, Australia, Far East) Index showed a fall of almost 5 per cent in 1982, ignoring dividend income, whereas the corresponding U.S. national index was up by 15 per cent.

The logic behind the overseas diversification is strictly of a long-term nature, however, and must be seen in the context of the historical development of U.S. pension schemes' investment strategies.

Until 20 years ago U.S. schemes invested almost wholly in bonds and subsequently spread their wings no further than the domestic U.S. equity market.

But the ERISA legislation of 1974 (the initials stand for the Employee Retirement Income Security Act) ushered in a new era in which questions of risk and accountability of trustees were given fresh prominence.

At the same time developments in modern portfolio theory led to new attitudes, especially in the analysis of risk and the approach to diversification. Plan sponsors have become keen to show that they have considered all prudent forms of investment and the serious Wall Street setback of 1974 served to concentrate their minds in this respect.

So in recent years U.S. pension schemes have moved heavily into property, have

CONTINUED ON NEXT PAGE

Overseas exempt funds are a favoured channel

SINCE the abolition of exchange controls in October 1979 the world has been the pension fund managers' oyster. Until then a relatively small proportion of pension fund money was channelled abroad.

The flow of funds overseas virtually trebled overnight after controls were lifted. In 1979 only 7.4 per cent of pension funds' £4.7bn cash flow was earmarked for foreign markets. Since then on average about 20 per cent of the industry's cash flow has left these shores for foreign parts.

Pension fund managers suddenly found themselves in the closing months of 1979 faced with the problem of how best to invest overseas. For those without sufficient expertise in world markets the obvious course was to go through a middleman who already had a sound track record of fund management in the desired foreign speciality.

One fairly cheap way of getting access to this experience was to buy holdings in a unit trust. Most pension fund managers tend to buy units in exempt funds, which are free of Capital Gains Tax even though with the abolition of CGT on authorised unit trusts in 1980 the main obstacles to authorised vehicles were removed.

Mr Donald Walker, Fisons fund manager, has invested £5.5m of the group's £106m in exempt unit trusts. He chooses them not for tax reasons but rather for size. "I would prefer to be in a big fund if I am going to be putting in a couple of million pounds," he said. Fund managers fear that if they invest in small funds and other investors start to sell their holdings they are liable to be left in a vulnerable position.

The other reason why fund managers tend to opt for exempt funds is their belief that these are more stable and less susceptible to withdrawals when investment opportunities elsewhere beckon more strongly.

This view is perhaps borne out by the flow of funds into Far Eastern exempt funds last year, when this area of the world was playing second fiddle to the U.S. As the accompanying table shows, the total assets in these funds grew during 1982 by around 20 per cent.

Some fund managers say they think the manager of an exempt trust will take a longer term perspective than his counterpart at an authorised trust, since he knows the funds are less volatile. Most unit trust groups, however, have little sympathy for this proposition.

Last but not least is the cost. One fund manager who holds units in both exempt and authorised funds said "I tend to choose exempt as the charges are lower." In some cases charges on an exempt fund can be roughly half those of an authorised trust, as the unit trust group pay intermediaries fees for getting business.

Last year the main action among exempt unit trusts took place in the North American and international sectors, but even so these funds still account for a very small proportion of the pension funds cash flow that went overseas. As the table shows, if you add the money in overseas exempt funds

Specialists

ROSEMARY BURR

together the total is less than the amount of pension fund money which left Britain during the first nine months of 1982 alone.

That said, a handful of exempt trusts invested overseas have shown relatively healthy asset growth in the past few years. The bulk of exempt trusts, however, are small and slothful, either because they are not actively marketed or are too small to appeal to pension fund managers.

North American property trusts appear to be the hottest growth area at the moment. Traditionally pension fund managers have been keen to delegate their property portfolio to unit trust groups as this cuts down administrative costs and gives them a broad spread of investments.

There are nine North American property trusts which are exempt; six of them were started last year. Their growth underlines the appeal of the specialist fund for pension fund managers when compared to the small, albeit growing, sector of international exempt funds.

North American funds did well in what was undoubtedly a fine year for Wall Street, showing perhaps that pension funds managers, like their unprofessional brethren, can be swayed by the sniff of short-term gain.

The laggard in the exempt fund asset stakes is UK property funds, the largest group, but with the gloss knocked off property these funds are no longer exerting much pulling power.

An examination of last year's figures shows that most of the asset growth was limited to a handful of large funds. In other words the gap between the members of the big league and the tiddlers widened.

Most of the larger exempt trusts are run by stockbrokers or merchant banks who use them as a handy place to invest in-house pension fund money. As a result there are some smaller exempt funds with extremely impressive track records which have been either cold-shouldered by fund managers or simply not actively marketed.

One star performer, for example, is GT Pensions Exempt, which has grown by 327 per cent according to Planned Savings in the five years to January 31 last. GT says it is looking at ways of marketing this fund but sees it as simply one of the options it can make available to pension fund managers.

Henderson Pension Fund Management, with seven exempt funds, has the widest range. Some 450 pension funds have placed a total of £100m in these vehicles. However, only two, North American Exempt and Japan Exempt, are substantial in size, together accounting for £94m. Mr Colin Day, HPFM's managing director, said: "The big funds use them to get experience of areas they can't cover."

This aspect of actually learning from the unit trust managers was underlined by Thorn-EMI's Bob Good. About £10m out of £275m is invested in exempt funds at Thorn-EMI but a smaller sum is placed in investment trusts.

Mr Good said: "I go to meetings and discuss policy with the unit trust managers. I raise questions about the performance. In fact I monitor their progress quite closely."

As well as his holdings in exempt trusts Mr Good has chosen to invest £2m in authorised unit trusts because "of their performance." Most of his unit trust holdings are in overseas funds as "we do not have the in-house expertise."

Exempt trusts have not on the whole been marketed that fiercely. However, with heightened competition in the unit trust industry more groups can be expected to be actively seeking pension fund money in the future.

EXEMPT UNIT TRUSTS

Type	Number	Size (£m) as at 31.12.81	Size (£m) as at 31.12.82
North American	15	155	252
Far Eastern	15	249	304
International	7	42	82
UK Property	20	1430	1482
N. American Property	9	na	218
UK Equity	29	na	606

Source: The Wyatt Co., London

Entrusted to London care

CONTINUED FROM PREVIOUS PAGE

dabbled in areas like oil and gas or leveraged buyouts and—as an important part of this process—have often made important commitments to foreign equity markets.

Many big funds have earmarked 5 or 10 per cent of their assets for investment overseas, the idea being that so long as the foreign markets are not highly correlated with Wall Street's movements the overall effect will be to reduce fluctuations in the value of the scheme's assets. Risks will be lower.

Of course, when the dollar is strong and U.S. equity prices are rising the effect will not look very clever. On the other hand, the pendulum should swing in the other direction in due course.

Even so, it can still be important to choose the right moment to shift funds abroad. The past year or two have not turned out to be at all favourable in this respect but some London-based fund managers now think that the timing looks much better.

On most measures, after all, the dollar has become highly overvalued against other important currencies such as the yen, the Deutschemark or the pound. This is not to say that the position will necessarily be corrected in the near future. But on a very long-term view, which pension funds can appropriately take, it seems a relatively advantageous time for Americans to buy overseas assets.

Some of the U.S. banks and investment advisers are in a good position to secure the management contracts for the overseas portfolios of ERISA funds. Morgan Guaranty, for instance, is probably the leader in the field.

Even so, Morgan Guaranty runs this operation from London rather than New York (with back-up from a string of other world-wide offices) and it seems to be the rule that U.S. plan sponsors like to choose advisers with demonstrable overseas experience. This has given a tremendous opportunity to a number of U.K. fund managers.

Why the UK? The tradition of international investment out of London and Edinburgh is obviously the main reason, with particular expertise in the Far East and some of the older Commonwealth countries. Naturally, the Americans are not normally looking for knowledge of the U.S. (although sometimes they allow their London managers to operate a truly global fund rather than the more normal non-U.S. portfolio).

Other factors which favour London include its geographical position, straddling the time zones between Tokyo and New York and the advantage of the English language (though British fund managers have to learn to cope with the special jargon of American financial market theory and practice).

But although a British fund management house may have the expertise, marketing it to ERISA funds in the U.S. can be a difficult and expensive process.

One or two London merchant banks teamed up with American partners, examples being Rowe Price-Fleming and Aetna Warburg. The danger in such arrangements is that the partners' interests may not always permanently coincide. Warburg was left in the lurch last year and forced to rebuild its own marketing effort when Aetna Life transferred its affections to Samuel Montagu, in which it bought a 40 per cent stake.

Among the other British merchant banks, Morgan Grenfell, Schroders and Barings have carved out positions and several independent investment management houses have also emerged with important ERISA clients—the major names here being GT Management and Ivory and Sime in Edinburgh.

It is by no means an easy market to penetrate. To be taken seriously an adviser must be able to demonstrate strength in depth and will have to be prepared to spend a great deal of time and money on initial presentations and subsequent client contact.

To take an example, GT Management maintains offices in places such as San Francisco, Hong Kong and Sydney as well as London and the costs are such that it can be uneconomic to handle accounts of less than $15m.

From this point of view, the big banks which already have global branch networks in place could well have an advantage, though their international operations will normally have been designed with banking rather than investment expertise in mind.

In the end the successful advisers will have to produce good performance for their clients. The ERISA plan sponsors are usually willing to pay relatively high fees to their overseas portfolio managers, recognising that this is a high cost business, but they will also be expecting those fees to result in high investment returns.

Meanwhile the international portfolio managers dream about the potential of the ERISA market. If U.S. pension plan sponsors come to believe universally that to invest 5 or 10 per cent of the portfolio overseas is desirable, then the $5bn or so currently being managed in London and elsewhere could multiply many times over.

Traditional hedging value challenged

"THERE IS no compelling magic about going into property just at the moment," says Mr Peter Archer, head of the Lazard Property Unit Trust. "There is a transition in people's thinking taking place as they adjust from a high-inflationary economy to a low-inflationary one.

"Pension funds have been reducing their involvement in property investment by moving money into index-linked gilts, which have taken over the role of the inflation-hedging investment."

Traditionally institutions have thought of property as one of the best hedges against inflation. The income from it was thought to be relatively secure — certainly compared with that from equities — and yet able to grow faster than inflation in many cases. As Mr Michael Mallinson from the Pru says: "In a growing economy a limited but essential resource will grow in value. The only problem lies in identifying which sorts of property will prove a limited resource and which will not."

But now that our economy is not growing, but stagnating, is property such an attractive investment for pension funds and other institutions?

Between 1965 and 1970 office rents showed a real growth of 6.6 per cent. In the period 1970-76 this slowed down to 4.1 per cent. But in the last six years rental growth has not even kept pace with inflation; there is a shortfall of 3.5 per cent. Therefore property's *traditional role as a hedge* against inflation has been challenged. As Peter Archer says: "Property has to adjust to a different set of rules. People will start to recognise its merits as a solid rather than exceptional performer. It will be less volatile than equities; it will provide an element of stability in a portfolio."

How have pension funds reacted to this slow-down in rental growth? According to figures from the Central Statistical Office, pension fund investment in "land, property and ground rents" fell from £217m in the first quarter of 1982 to £201m in the second quarter and £183m in the third. This decline in involvement in property follows a two-year trend.

Part of the reason is that pension funds have been aiming at a target percentage of their portfolios for property investment over the last 10 to 15 years. It may be that this target has been reached and so activity is lower. Since 1967 property investments have risen

Property

MARY ANN SIEGHART

from less than 5 per cent to around 18 per cent of the average private pension fund's assets.

Peter Archer believes that this percentage may fall: "We're likely to see reduced targets over the next few years, probably in the 12-20 per cent range."

But in the short term the relatively poor performance of rental growth and property prices must also have taken its toll. In the year to March 1982, according to chartered surveyors Richard Ellis, rental values of a *selection of institutionally* owned properties increased by an average of only 4.8 per cent compared with 12.5 per cent in the preceding 12 months. Growth was lowest for the industrial sector but offices and shops suffered too. Demand for prime properties in the letting market was remarkably stable throughout the country, while secondary and tertiary properties coming on to the market became increasingly difficult to let.

The amount of money committed to development since the late 1970s caused a substantial increase in the supply of new property in 1982. Therefore prospective tenants had greater choice, causing rents to remain virtually static.

A lot of new office space came on to the market in 1982, both in new buildings and in those vacated by previous tenants. There was little rental growth except for prime property in two centres—the City of London and Manchester—where supply was more restricted.

In the West End of London, several large companies such as ICI, Commercial Union and Esso announced plans to relocate *outside London*. Towns near to the new M25 have therefore become an area for investment.

The shake-out in UK manufacturing industry saw an increasing amount of space coming on to the industrial market and demand was weak, even in the more desirable locations. Investment in shops tended to be concentrated in "second tier" towns in South East England such as Oxford, Cambridge and Norwich.

What about prospects for 1983? According to Richard Ellis: "There is little indication in property markets of any increase in activity over the level seen in 1982. With selective demand for prime accommodation, rental values are likely to edge slowly upwards for only the best quality space" in favoured locations. Outside these areas rents are expected to remain static, even for new *buildings*.

However, if institutions have been holding back in anticipation of a pick-up in property, now may well be the time to reinvest. Richard Ellis continues: "Against this background many institutions will continue to recognise that attractive properties . . . continue to be bought on a selective basis against rigorous investment criteria.

"We indicated last year that funds might be wiser to be underinvested in the short term and then profit from this position when returns on property improve. We now feel that this situation is likely to commence within the ensuing 12-month period. We therefore consider that it is inappropriate for funds to remain out of the market at the present time. The importance of timing for investment is becoming ever more important and in 12 months' time, the best opportunities may just possibly have been missed."

Peter Archer agrees with this analysis: "At the moment there is a reduced flow of money going into property. But by the end of this year there may be more because equities may be overblown by then. Property will continue to have an appeal to institutional investors in that it is secure."

So some of the short-term outflow of funds may be made up within the next year or two. Whether in the long term property will occupy a smaller part of funds' portfolios remains to be seen.

Little of the above applies to investment in agricultural land and forestry, traditionally much more stable assets. A recent survey by Savills, the surveyors, and Roger Tym and Partners, land economics consultants, revealed that the institutions own about 2.5 per cent of the area of crops and grass in Britain, worth around £700m.

It also discovered that the institutions are buying about 50,000 acres a year—between 8 and 12 per cent of all UK farmland sold.

Rents have nearly kept pace with inflation throughout the period 1965-81 but total return—rent and capital—has outperformed the Retail Price Index by 27 points over the period 1971-1981. Grade 1 land was 174 points higher than the RPI over the same period.

As long as the large element of subsidy remains, agricultural land will remain attractive as a relatively stable investment, occupying a small part of a fund's portfolio.

But perhaps it is the risk involved in commercial property investment that can make it more attractive than investments with fixed returns. Peter Archer concludes: "At the end of the day, property is going to seem an attractive alternative to the index-linked gilt because there is always the possibility of beating it. It's going to put a premium on good management."

Dilemmas in exercising powers of ownership

HOW MUCH power do the pension funds wield in the British corporate sector? In practice it is much easier to outline the scope for pension fund intervention in industry's affairs than to pin down precisely what can or cannot be done.

Outside estimates put the pension funds' holdings of quoted equity shares at around a quarter of the total. Together with the other major institutional groups—insurance companies, investment trusts and unit trusts—they control well over half the outstanding quoted equity in British industry and commerce. The voting rights that go with that majority institutional holding clearly confer some power—and the institutions are under increasing pressure from politicians, the Press and the Bank of England to use it.

Fund managers are more inclined to take the message today than they were ten years ago when the Bank of England first pressed for a more concerted institutional assault on inefficient companies. In the *early 1970s* they argued, with some justice, that they lacked the knowledge of industrial management to do the job; and they were anxious to hang on to the right to sell their shares, in response to corporate decline, rather than accept the commitment to more responsible ownership.

In the early 1980s they are more conscious of the difficulties in selling out of British industry. The fiction of liquidity is becoming increasingly hard to maintain as the institutional stake in industry creeps to higher and higher percentages. Moreover, the wider use of performance measurement has led many actuaries and other observers to conclude that few fund managers have the ability to identify consistently whether shares or markets are going to go up or down.

The pressure on pension funds is particularly acute. Their activities are notoriously under-regulated. So some fund managers and trustees are anxious to avoid the label of absentee landlord. Hence, in part, a spate of recent cases where the pension funds have been actively and very visibly involved in controversy over individual investments.

In some instances they have taken issue with management over broad strategic issues. In the case of Globe Investment Trust's involvement in Mercantile House's recent takeover of the American brokerage firm Oppenheimer, the National Coal Board fund was worried that Globe's commitment to Mercantile after the deal would be too large in relation to its portfolio. Few other institutional shareholders took the same view and the deal still went ahead. The holding in Oppenheimer has subsequently risen spectacularly in value.

In other cases the pension funds have turned themselves into the moral majority of the capital markets, castigating management for excessive perks and pay-offs. The Post Office pension fund has been particularly active on this score. Among those to have been taken to task are Associated Communications Corporation, Burton Group and Marks and Spencer.

Sir Arthur Knight, former chairman of Courtaulds, argued in his recent Fairbairn lecture at Lancaster University that such action falls short of fulfilling the institutions' potential for bringing about industrial change. Some in the City also claim that conspicuous crusading of this kind is really a public relations exercise.

Proprietor role

JOHN PLENDER

Yet this may be to underestimate the extent to which the larger investors have been drawn into the reconstruction of the problem cases of British industry. The conventional wisdom of the institutional world is that while fund managers may lack the right kind of skills to tell industrial management how to manage, they can at least try to put in new management to do the task.

In many cases the resulting management reshuffle fails to attract public attention. But in the present deep recession any large company in financial trouble is almost certain to be the subject of a co-ordinated attempt by shareholders and bank creditors to work out a long-term survival plan, with the Bank of England's industrial advisory unit playing a crucially constructive part. *While insurance companies and* pension funds are not directly within the Bank's supervisory aegis, they can be encouraged to take a broad view of their beneficiaries' interests when the Bank is in persuasive mood.

An *obvious* recent case is Turner & Newall, where Prudential, M & G and other big shareholders were parties to an arrangement whereby Sir Francis Tombs was brought in to attempt to sort out problems of recession, long-term decline and liabilities arising from asbestosis. Poor recent results from the Rank Organisation have precipitated a similar response from the institutions.

Yet it could be argued that in both these cases the crusade was undertaken somewhat late in the day. Rank, in particular, has been the subject of smouldering discontent in the City for as long as most people can remember.

It remains to be seen, too, how far the pension funds are prepared to go in launching a more extensive lifeboat for the manufacturing sector. For some time the clearing banks have been searching anxiously for an alternative to receivership for the growing number of their clients who languish in what is politely known as "intensive care." They would dearly love to see such bodies as Equity Capital for Industry, together with individual insurance company and pension fund shareholders, refinance more of their client companies' existing short-term debt with fresh equity.

It is also in the Bank of England's interest to see the institutions become equity financiers of last resort in the troubled manufacturing sector. The quality of clearing bank assets would be greatly enhanced if some of the more hair-raising risks were transferred from bank balance sheets to institutional portfolios.

The institutions, however, may not be easily railroaded into absorbing the losses that are building up in the banking system. There are, admittedly, parallels with the "lifeboat" arrangements for secondary banks and property companies in the financial crisis of the mid-1970s. But in that instance a relatively small number of problem companies was involved.

Moreover, the solution in every case was relatively simple: it boiled down to the sale of property.

In the manufacturing sector, by contrast, every company is different. Judgments about whether a given company is a going concern depend on nice judgments about the markets for individual products. The number of companies that are struggling with an excessive burden of debt in relation to their present ability to generate cash is considerable.

All that points to much arm-twisting behind the scenes and a much less coherent rescue operation than in the mid-1970s. Many companies and their bankers may have to pin their hopes on economic recovery rather than a pension fund *deus ex machina*.